April 2012
IMF Country Report No. 12/74

Haiti: Second and Third Reviews Under the Extended Credit Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Haiti.

In the context of the second and third reviews under the extended credit facility, the following documents have been released and are included in this package:

- The staff report for the Second and Third Reviews Under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on December 14, 2012, with the officials of Haiti on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 23, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of February 23, 2012 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its March 19, 2012 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Haiti.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Haiti*
Memorandum of Economic and Financial Policies by the authorities of Haiti*
Poverty Reduction Strategy Paper--Progress Report
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

HAITI

Second and Third Reviews Under the Extended Credit Facility

Prepared by the Western Hemisphere Department
(In Consultation with Other Departments)

Approved by Gilbert Terrier (WHD) and Taline Koranchelian (SPR)

February 23, 2012

Background. Growth has resumed, inflation remains at single digit levels, and the fiscal and external positions have strengthened. However, the reconstruction has been slower than anticipated and the challenges ahead remain daunting. Two years after the devastating earthquake, more than half a million people are still in temporary shelters. While the new government is firmly committed to accelerating the reconstruction, sustaining growth, and reducing poverty, the president's lack of a majority in parliament could hold back the reform agenda and slow the pace of activity. The security situation remains highly volatile.

Discussions. The team comprised B. Loko (head), A. Bessaha, and A. Brousseau (all WHD); A. Gamba (FAD); and L. Nielsen (SPR). J. Bouhga-Hagbe (Resident Representative) assisted the mission and K. Florestal (OED) joined the discussions. The mission met with Minister of Economy and Finance Georges, Minister of Planning and External Cooperation Day, Governor of the Bank of the Republic of Haiti Castel, Co-Chairman of the Advisory Board on Economic Growth and Investment Lamothe, as well as other senior officials and development partners.

Program performance. All end-March and end-September 2011 performance criteria were met. In contrast, structural reform has generally been slower than anticipated, reflecting mainly the protracted electoral process. A total of SDR 9.828 million is to become available upon the joint completion of the second and third reviews, bringing total disbursements under the current ECF to SDR 26.208 million.

Policies for FY 2012. The authorities are focusing on further increasing revenue; improving cash management for higher transparency and efficiency in the use of public resources; enhancing institutional capacities and human resources for better public investment management; and strengthening liquidity management and market-based monetary operations.

Publication. The authorities have consented to the publication of the Staff Report, Letter of Intent, and Memorandum of Economic and Financial Policies.

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I. CONTEXT

1. **Haiti has finally emerged from a protracted and tumultuous electoral period**. The cycle of presidential and parliamentary elections launched in November 2010 was concluded on May 14, 2011 with the swearing in of President Martelly. It took an additional period of five months for the new Prime Minister, Mr. Gary Conille, to be approved by parliament, and the government took office in October 2011, almost a year after the beginning of the electoral cycle.[1] The political stalemate reflected the President's lack of a majority in parliament. The security situation remains highly volatile.

2. **The reconstruction is underway, albeit at a slower pace than anticipated, owing mainly to the protracted electoral agenda and Haiti's limited administrative and absorptive capacity.** The damage caused by the earthquake was massive, estimated at the equivalent to 120 percent of GDP. A total of 220,000 people were killed, including one out of three civil servants (many in middle management), 1,200 teachers, and over 500 health personnel. In addition, 300,000 houses, 13 out of 15 ministries, 4,200 schools, and more than 60 percent of the country's hospitals were damaged or destroyed. Essential state functions have now been restored, camp occupancy has dropped by about half, to around 600,000 persons, many children have returned to school, and 50 percent of the debris has been removed. Although debt relief has been almost completely delivered, donors' disbursements have been slow. Out of the amounts pledged at the UN Conference in New York for 2010 and 2011, only 61 percent has been disbursed, with significant delays recorded regarding under the "programmable cash" components (52.6 percent disbursed).[2]

Haiti: Total Post-Earthquake Pledges, 2010-2011
(in million of U.S. dollars)

	Pledges	Committed funds not disbursed (end of December 2011)	Disbursements (end of February 2011)	Disbursements (end of December 2011)	Percentage of disbursed over pledges
New York Conference	5539.0	...	2344.3	3376.3	61.0
Debt relief	1015.2	...	965.2	995.8	98.1
Programmable cash	4523.7	2120.9	1379.1	2380.5	52.6
Of which: Budget support	...	82.1	237.8	319.9	...
Of which: through HRF 1/	...	10.7	241.1	275.8	...
Of which: direct grants and loans	...	2003.3	900.3	1784.8	...
Other recovery funds	1216.8	352.2	552.4	654.8	53.8
Post earthquake Humanitarian Relief 2/	2682.8	304.8	1508.8	2292.6	85.5
Total donor funding	9438.6	2777.9	4405.5	6323.7	67.0

Sources: Office of the Special Envoy for Haiti, February and December 2011 reports; Haiti Reconstruction Platform website; and HRF Secretariat.

1/ Does not include US$45.3 million in budget support channeled through the HRF, recorded in the budget support line.

2/ Additional humanitarian relief worth US$180.1 million was pledged to fight the cholera outbreak, of which US$139.5 million has been disbursed.

[1] The parliament rejected the President's first two candidates for the position of Prime Minister.

[2] About US$2.4 billion out of the US$4.6 billion "programmable cash" have been made available to implementing entities as of end-December 2011, but there are no comprehensive data on the amount effectively spent (out of the US$2.4 billion). However, anecdotal evidence would suggest a relatively low execution rate. For instance, as of end-September 2011, only 0.8 percent of the US$412 million allocated by the USAID has been used. Resources freed up by the IMF PCDR (US$268 million) were largely unused.

3. **The challenges ahead remain daunting.** Two years after the devastating earthquake, the unemployment rate is above 60 percent, and most Haitians live below the poverty line.[3] The health situation remains difficult and, in 2011, Haiti ranked 158 out of 187 countries according to the UNDP Human Development Index. An immediate challenge for the new authorities is to take full advantage of the technical assistance and financial support made available by the donor community and the IFIs, including the IMF, to accelerate the reconstruction and sustain the recovery while safeguarding macroeconomic stability. Looking forward, the authorities need to sustain high growth, alleviate poverty, and strengthen the country's resilience to external shocks. This will depend notably on the success of the government's reform program in raising the domestic revenue intake, improving absorptive capacity and the quality of public spending and public services, enhancing economic governance, strengthening institutions, and improving the business environment.

Haiti: Millennium Development Indicators, 2010

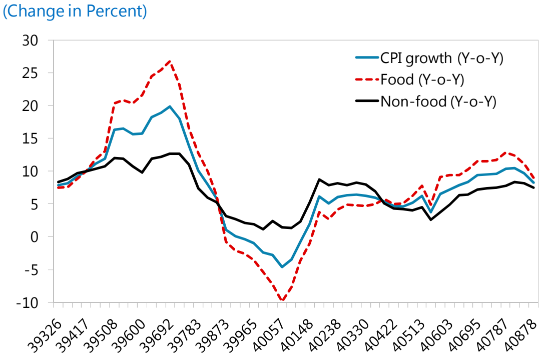
	Haiti	Dominican Republic	Caribbean
Literacy rates of 15-24 years old, (in percentage)	72.3	95.8	89.5
Mortality rate, infant (per 1000 live births)	57	22	38
Maternal mortality ratio (per 100,000 live births)	670	100	170
Prevalence of HIV, total (Percentage of population 15-49)	2.2	0.9	1.0
Births attended by skilled health personnel (In percentage)	26	97.8	69

Source: *The Millennium Development Goals Report 2011,* United Nations.

II. Recent Economic Developments and Program Implementation

4. **Economic activity has recovered and inflation has receded**. After a 5.4 percent drop in FY 2010, real GDP is estimated to have grown by 5.6 percent in FY 2011 (year ended in September 2011). While growth has been strong in construction, manufacturing, and services, agricultural activity (roughly 25 percent of GDP) rose by only 1.1 percent because of unfavorable harvest conditions. After peaking at 10.4 percent in September 2011 on account primarily of higher food prices (which account for more than half of the CPI basket), twelve-month inflation declined to single digit levels in December, to 8.3 percent. Non-food inflation has also receded.

Graph 1. Haiti: Headline and Food Inflation, Sept. 2007-Dec. 2011
(Change in Percent)



Sources: Haitian authorities; and Fund staff estimates.

[3] Poverty is estimated at 77 percent by the UNDP.

5. **In FY 2011, the overall fiscal deficit was significantly lower than envisaged**. The government ended the fiscal year with an overall deficit of 3.7 percent of GDP, against a programmed deficit of 6.2 percent. This performance is attributable to both higher-than-projected revenue performance and under-spending, especially on public investment. Stepped up collection efforts and the introduction of new fees on cars[4] boosted domestic revenue by 23.8 percent, to about 13.1 percent of GDP. Weak planning and implementation capacity continued to hinder project implementation. In addition, the protracted electoral agenda and ensuing political uncertainty contributed to low execution rates of domestically-financed capital spending, as well as to delays in budgetary support disbursements. Budgetary developments so far in 2012 have been broadly in line with program projections, but investment spending continues to be low.

6. **The external position has strengthened**. In FY 2011, the trade balance improved, reflecting a significant increase in exports of textiles, helped by improved access to the U.S. market under the HOPE/HELP Initiatives, and subdued import demand. However, lower transfer receipts contributed to a widening in the external current account deficit to 3.5 percent of GDP (one percentage point of GDP above the 2010 outcome). Higher foreign direct investment buttressed the capital account, and gross international reserves rose to US$2 billion at end-December, equivalent to 5.3 months of imports. On a 12-month basis, the Gourde depreciated slightly against the U.S. dollar (by 2.8 percent at end-December 2011).

7. **Broad money growth remained below the program target.** Credit to the private sector has picked up (24.5 percent in September 2011, y/y). In contrast, net credit to the government has declined, thus resulting in a slowdown of base money growth, to 6 percent. Overall, broad money increased by 10.4 percent in 2011, or about half the programmed level (20.3 percent). Non-performing loans have remained low, and key stability indicators suggest that the financial sector remains relatively liquid and profitable.

8. **Program performance has been broadly satisfactory, but structural reforms have lagged owing mainly to the protracted electoral process**. All end-March and end-September 2011 performance criteria were met. Available data suggest that all end-December 2011 indicative targets were also met, with the exception of the floor on poverty-related spending, reflecting the overall under-execution of public spending. End-March 2012 targets appear within reach. However, structural reforms have advanced much slower than expected. Four structural benchmarks were met, including one with delays. Implementation of the five remaining structural benchmarks is well advanced (MEFP, Table 2b).

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[4] The payment of the fees on cars (*vignette*) was conditional upon the presentation of an income tax declaration. This helped bring a large number of individuals (including local employees of foreign organizations) into the tax net.

Haiti: Status of Implementation of Structural Reform Measures in 2011

Structural Benchmarks	Timing	Status
Start preparing and publishing monthly cash plans including PetroCaribe spending and financing needs.	End-March 2011	The cash plan is in place since end-October, and a copy was sent to staff in late January 2012. The plan, however, does not include PetroCaribe.
Start producing quarterly reports with monthly data of investment expenditure based on SYSGEP and publish them on the MEF website.	End-March 2011	The tracking system is in place but the information channels to feed it are not active. The authorities asked for an extension through end-March to devise such a mechanism.
Select an international firm to conduct ISA compliant external audit for the FY 2011 audit, for a period of 3 to 6 years.	End-July 2011	The authorities selected both a local and international firm to conduct joint ISA compliant external audits. However the modalities of the joint audits need to be revised to involve the international form at all stages of the audit process, including the finalization of the audit reports and issuance of audit opinion. Also, the contract does not stipulate a multi-year appointment.
Launch the bids for the selection and hiring of the international consulting agency that will assist UCP and other project implementation units in the government	End-June 2011	The bids were not prepared because of the protracted electoral process and delays in forming a new government.
Prepare a plan of action / operational manual describing: a. Modalities to recruit staff with project management skills and responsibility for ordering payments for project work orders. b. A defined set of information, project lists and accounts to be regularly published online to ensure full transparency on project execution and planning. c. Clear practices to ensure the coordination between the UCP, the Procurement Commission (CNMP) and the Ministry of External Cooperation and Planning (MPCE), in full compliance with national budget execution rules.	End-September 2011	The authorities have submitted the first draft to staff who commented. The final version has yet to be adopted.

III. Policy Discussions

9. **The new authorities are committed to continuing working closely with the Fund and the international community to press ahead decisively with the reconstruction process and the reform agenda for a reduction in poverty and improvements in living conditions.** Accordingly, in line with their Action Plan for National Recovery and Development (PARDH), the reform agenda for 2012 will continue to focus on emergency responses launched in the immediate aftermath of the earthquake, while laying the foundation for longer term sustainable development. The ECF-supported program is consistent with the authorities' priorities and centered this year on policies and measures to safeguard macroeconomic stability and support the reconstruction and the recovery. In this context, the program will seek to continue: (i) generating fiscal space for additional poverty and reconstruction-related spending; (ii) enhancing institutional capacity for better public investment management; (iii) improving public financial management and economic governance; and (iv) strengthening financial intermediation and the financial sector.

A. Macroeconomic Outlook

10. **Political stability and an acceleration of the reconstruction efforts will be critical to strengthen the economic recovery in 2012**. A rebound in agriculture and buoyant activity in construction and manufacturing are projected to contribute to boosting growth to 7.8 percent. Twelve-month inflation would recede to 8 percent by the end of this fiscal year, on the assumption that the shock from international food prices diminishes, domestic food production recovers, and the supply chain improves. The external current account deficit is expected to widen to 4.5 percent of GDP, reflecting a surge in reconstruction-related imports. Grants and loans projections would remain broadly unchanged, and gross international reserves are projected to decline below 5 months of imports.

11. **Uncertainties to the outlook remain significant**. Haiti is vulnerable to global downside risks, through lower exports, external assistance and remittances. Staff and the authorities concurred, however, that the immediate impact will likely be mild and could be mitigated by the relatively high level of reserves. Haiti's exports sector is small (10 percent of GDP) and there is no indication so far that aid will be revised downward in 2012. In addition, remittances flows in Haiti (17.8 percent of GDP in 2011) have been fairly stable during the 2008 crisis. On the domestic side, risks include natural disasters, weak administrative and absorptive capacity, and political instability related, inter alia, to the President's lack of a majority in parliament.

Haiti: Medium-Term Macroeconomic Framework, 2010-2013

	2010	2011	2012	2013
	(Change over previous year; unless otherwise stated)			
GDP at constant prices	-5.4	5.6	7.8	6.9
Consumer prices (end-of-period)	4.7	10.4	8.0	4.9
	(In percent of GDP; unless otherwise stated)			
Overall fiscal balance	2.4	-3.7	-7.7	-5.8
Overall fiscal balance (excluding grants and externally-financed projects)	-5.0	-4.7	-8.8	-5.5
External current account balance (including official grants)	-2.6	-3.5	-4.5	-5.5
External current account balance (excluding official grants)	-29.9	-23.1	-22.9	-19.9
External public debt (end-of-period)	13.2	8.9	12.4	15.0
	(In millions of U.S. dollars, unless otherwise stated)			
Net international reserves (program)	1,095	1,177	979	879
Liquid gross reserves	1,792	2,000	1,843	1,843
In months of imports of the following year	5.3	5.3	4.7	4.7

Sources: Haitian authorities; and Fund staff estimates and projections.

B. Fiscal Policy and Budgetary Reforms

12. **Fiscal policy will support an acceleration of the reconstruction in a context of medium-term sustainability.** In this vein, the 2012 budget seeks to enhance revenue collection and contain non priority current expenditure while increasing pro-poor spending. However, an acceleration of the reconstruction effort will lead to a significant increase in domestic capital spending and widen the overall deficit to 7.7 percent of GDP, up from 3.7 percent of GDP last year. The deficit is fully financed with external resources

(4.2 percent of GDP) and domestic financing, including issuance of T-bills (1.3 percent of GDP).

13. **There is scope to further increase domestic revenue mobilization**. Domestic revenues are expected to rise by 0.5 percentage point of GDP, to 13.6 percent of GDP, significantly higher than envisaged at the time of the first review (12.8 percent), (Country Report No. 10/263; July 8, 2010). However, this is still below potential, especially when compared with other Caribbean Islands or similar Latin American countries (Box 1). To achieve this target, the 2012 draft budget law includes a number of measures (MEFP, ¶17) aimed at further bolstering tax and custom administration, improving tax compliance, simplifying the tax system, and broadening the tax base in line with the recommendations of recent Fund technical assistance. Staff underscored the need for steadfast implementation of these measures to meet the program's revenue target. Increasing domestic revenue would also require strong commitment to significantly reduce exemptions, which currently are estimated at the equivalent of 2.3 percent of GDP. To further improve transparency, the recently-introduced fees on incoming international calls and international financial transactions to fund President Martelly's new education programs were fully incorporated into the budget (MEFP, ¶12).

14. **Rationalizing and restraining current spending remains a key priority**. Limiting the growth of recurrent spending, in particular transfers to the energy sector, is critical to ensuring that adequate resources are available for poverty-related and infrastructure spending. Total transfers to the electricity company (EDH) amounted to 2.8 percent of GDP (about US$200 million) in 2011, of which 1.6 percent of GDP were direct subsidies from the Treasury and the remaining from the PetroCaribe account.[5] Efforts are ongoing—with support from key development partners,[6] including the US, IDB and the World Bank—to modernize the electricity sector and rehabilitate the distribution network to reduce technical losses. In this context, the authorities are finalizing discussions on a contract with an international firm to temporarily manage EDH. The authorities noted that the modernization of the sector and sufficient budget allocations to enable full payment of electricity bills to EDH during 2012 would help cut budgetary subsidies in half in 2012 and reduce total transfers to EDH to 1.3 percent of GDP, from 2.8 percent last year. To further enhance transparency and accountability, the government is committed to integrate in budget documents all subsidies and transfers to EDH, including those from the PetroCaribe account (MEFP, ¶13).With respect to the wage bill, it is projected to rise slightly to 5.2 percent of

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[5] In line with the end-June 2011 structural benchmark under the program, transfers made from PetroCaribe resources are now published online by the authorities. While the authorities consider these transfers as "advances", staff is of the view that these resources will likely not be repaid by EDH and classifies them as "subsidies".

[6] In the electricity sector, a Memorandum of Understanding to strengthen the sector was signed between the government and key partners, including the U.S. and the IDB. A managing director and four directors were recently appointed at EDH.

GDP, on account of new hires in the social sectors. Overall, current expenditures are envisaged to decline slightly to 11.4 percent of GDP.

Box 1: Fiscal Revenue Trends and Challenges for Post-Earthquake Haiti

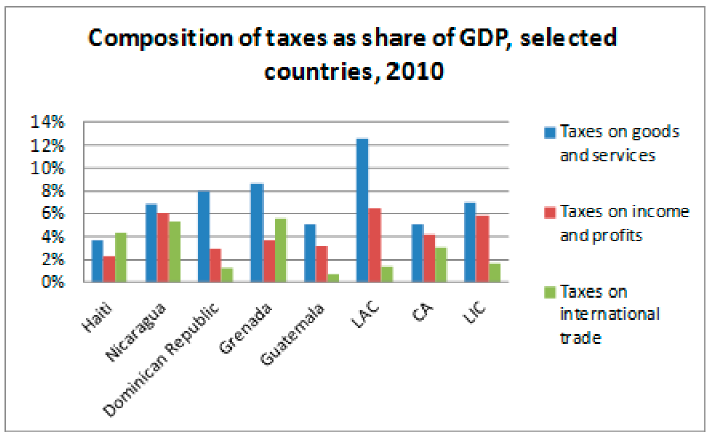
Despite recent improvements, the domestic revenue-to-GDP ratio in Haiti is low relative to regional peers. In 2010, Haiti's share of domestic revenue to GDP stood at 11.8 percent or 7½ percentage points of GDP lower than the weighted average of Central American (CA) countries. The country lags behind its peers predominantly in taxing goods and services, income, and profits. In 2010, revenue from these taxes accounted for about 6 percent of GDP in Haiti, well below regional standards (13 percent of GDP on average in CA countries).

Haiti: Domestic Revenue over GDP for Selected Countries, 2005-2010

	2005	2006	2007	2008	2009	2010
Haiti	9.7	10.2	10.7	10.6	11.1	11.8
Nicaragua	26.4	27.9	29.3	29.0	29.2	30.4
Dominican Republic	15.4	16.0	17.0	15.7	13.5	13.4
Grenada	19.1	20.1	20.9	20.7	19.7	19.8
Guatemala	12.0	12.7	12.8	12.0	11.1	11.3
Honduras	23.1	23.0	22.8	24.4	23.2	23.4
Latin America	28.0	28.7	28.6	29.3	28.4	29.9
Low-Income Countries	16.1	16.4	17.0	17.8	16.4	17.5
Central America	18.1	19.3	19.9	19.7	18.9	19.3

Source: National authorities; and Fund staff estimates and projections.

The authorities have committed to far-reaching reforms to expand the tax base, improve compliance, and raise revenue collection. This is expected to provide additional space for social and infrastructure spending, and limit the dependency on donor support over the medium-term. In the short run, the objective is to raise the tax revenue to GDP ratio to 14 percent by 2013 (and 15 percent the following year). To that effect, the authorities plan to introduce the following measures, in line with the recommendations of recent FAD TA missions:



- ➢ Creation of a tax policy unit within the MEF (structural benchmark).
- ➢ Establishment of a Medium Taxpayers Unit (structural benchmark).
- ➢ Streamlining of taxation levied on small-and-medium enterprises (including setting a high threshold for turnover tax or VAT).
- ➢ Elimination of nuisance taxes and excises, freeing up administrative resources to focus collection efforts on significant revenue sources.
- ➢ Limitation of exemptions.
- ➢ Reform of excises and turnover tax. The intake from excise taxes on tobacco and alcohols is low by international standards.
- ➢ Preparation of a comprehensive reform of the TCA, as part of a shift to a VAT with a manageable refund mechanism.

15. **The 2012 budget targets a significant increase in public investment, consistent with the authorities' intention to step up the reconstruction and sustain growth**. Domestically-financed capital spending is projected to increase by 5.1 percentage points of GDP, to 11.0 percent. Almost half will be financed by PetroCaribe resources (4.7 percent of GDP) and 7.0 percent from resources freed up under the PCDR (0.7 percent of GDP; 25 percent of the US$268 million available). Staff noted that the weak planning and implementation capacity, poor procurement practices, and a fragile institutional environment could slow down the execution of the investment program and pose some risks for the quality of this spending.

16. **The authorities recognized the need to increase expenditure execution capacity.** To this effect, they are committed to improving institutions in charge of project selection and design, planning, monitoring, execution and reporting, and strengthening governance more broadly (MEFP, ¶19). Key measures in 2012 include: (i) strengthening the role and resources of the Commission Nationale des Marchés Publics (CNMP), with technical assistance from donors, including the provision of equipments and staff training; (ii) enhancing project management and procurement procedures within the implementation units in line ministries; (iii) improving coordination between government agencies in charge of project design and implementation; and (iv) putting in place by March 2012 an improved tracking system of project execution. The authorities also plan to accelerate the use of resources freed under the PCDR by finalizing by end-March 2012 the operational manual and the recruitment of the international agency that will assist the unit (UCP) in charge of implementing PCDR-related projects.

17. **Further PFM reforms will focus on enhancing cash management, accounting, and the quality of overall public expenditure.** Improving cash management is a top priority, with measures paving the way to a Treasury single account. Measures this year include (MEFP, ¶20): (i) closing of all dormant accounts of the central government at the central bank or commercial banks and establishing the list of all accounts used by public entities (structural benchmark); (ii) imposing a requirement that each public entity keeps only one account for current spending and a strictly limited number of accounts for capital outlays; (iii) providing adequate training and staffing to public accountants; and (iv) clarifying the relationship and improving communication between the Ministry of Economy and Finance (MEF) and the Bank of the Republic of Haiti (BRH). In this connection, BRH intends to publish monthly information on central bank and commercial banks surveys (MEFP, ¶21, structural benchmark). The authorities also intend to accelerate the budget preparation process to ensure that Parliament has adequate time to approve the budget prior to the start of the fiscal year.

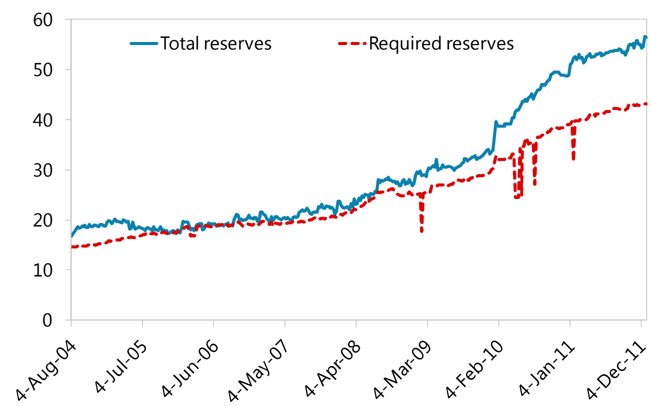
18. **The authorities intend to rationalize relations with state-owned enterprises to enhance transparency and promote good governance**. Staff encouraged the authorities to: (i) conduct a full inventory of the outstanding net government debt to state-owned enterprises (SOEs), including the electricity company; (ii) develop a clearance plan to settle this

domestic debt; and (iii) for the future, agree with the utility companies and other SOEs on an appropriate and timely billing plan that would enable the government to make its payments on time.

C. Monetary, Exchange Rate and Financial Sector Policies

19. **Monetary policy will continue to focus on containing inflation.** The authorities and staff concurred that BRH should be ready to adjust its monetary policy stance to contain inflationary pressures and achieve its inflation target in 2012, barring any commodity price spikes (MEFP, ¶15). In this regard, base money growth will continue to serve as the nominal anchor. That said, the increasing dollarization (Box 2) and persistent structural excess liquidity in the banking system could undermine the effectiveness of transmission channels and complicate monetary policy.

Graph 2. Haiti: Consolidated Reserves of Banking System, 2004-2011
(In billions of gourdes)



Sources: Haitian authorities; and Fund staff estimates.

20. **Deeper financial markets and greater exchange rate flexibility would help improve liquidity management, contain dollarization, and increase monetary policy effectiveness**.

- Ongoing efforts to develop a market for government securities and rely on open-market operations are welcome. Staff encouraged the authorities to speed up negotiations and move ahead with the securitization of government debt to the Central Bank. The approval of the new Central Bank law would contribute to enhance and strengthen BRH's independence and the credibility of monetary policy.

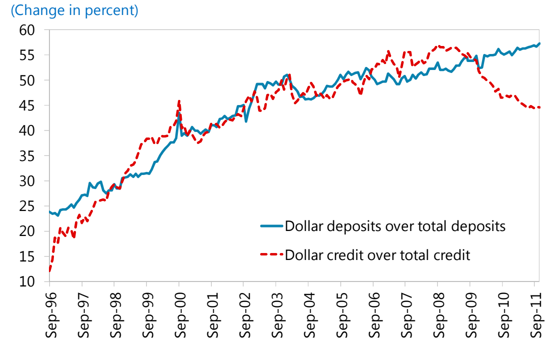
- The authorities and staff agreed that a more flexible exchange rate would also help manage capital flows and absorb external shocks. In this context, the authorities intend to establish an unconstrained single price foreign exchange auctions (instead of sales in which both price and quantity are fixed) by end-September 2012 (structural benchmark). BRH interventions in the foreign exchange market will continue to aim at smoothing excessive fluctuations (MEFP, ¶16).

Box 2. Dollarization in Haiti

Financial dollarization has steadily increased in Haiti since the mid-1990s, to one of the highest levels in the world. While the origins of Haiti deposit dollarization can be traced back to the price instability of the early 1990s, its persistence is predominantly linked to continued political instability and the difficult security situation, inflation volatility, and large capital inflows, including remittances and aid. Remittance inflows to Haiti have grown exponentially, from US$14.7 million in 1993 to US$1.1 billion in 2010, about 16 percent of GDP and 135 percent of exports of goods and services, making Haiti one of the largest recipients in the world.

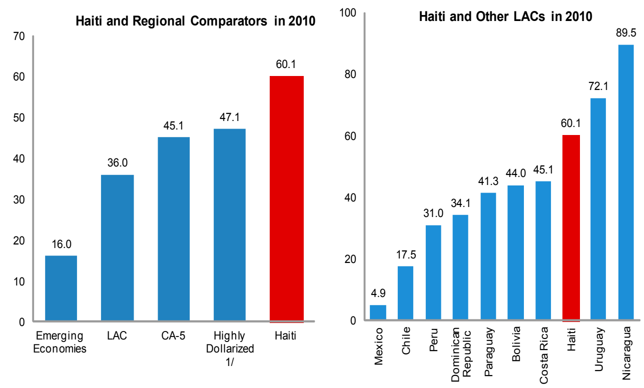
Graph 3. Haiti: Dollarization, 1996-2011

(Change in percent)



Sources: Haiti authorities; and Fund staff estimates.

Financial dollarization can carry significant drawbacks. High levels of dollarization tend to reduce seigniorage revenue, undermine the effectiveness of monetary policy, and exacerbate the vulnerability of the financial system to liquidity and exchange rate-related risks.



In the near term, these risks in Haiti appear relatively manageable. The high level of international reserves at the BRH will help withstand the liquidity risk. Current prudential regulations are also adequate to help contain direct exchange rate-related risks. Banks' net open foreign exchange position cannot exceed 2 percent of equity, and they are generally below this limit. In addition, Haitian banks, on average, have more deposits than loans in foreign currency. This reflects existing financial regulations, which prevent them from extending foreign currency loans beyond 50 percent of their foreign currency deposits. Banks' potential exposures to indirect credit risk require closer oversight, although anecdotal evidence suggests that commercial banks in Haiti tend to grant dollar loans mainly to larger commercial entities that derive most of their income in US dollars.

Looking ahead, the authorities are aware of the need to take further measures aimed at developing credit risk management practices, strengthening regulation and supervision, and reducing dollarization. These measures are critical to further increase the resilience of the banking system to liquidity and solvency risks. They should be accompanied by policies seeking to enhance the credibility of the domestic currency, including: (i) maintaining prudent fiscal and monetary policy; (ii) allowing more flexibility in the exchange rate; and (iii) rebuilding and strengthening government institutions and governance.

21. **The authorities intend to deepen efforts to modernize and strengthen the financial sector**. Efforts will focus on strengthening the operations of the Partial Credit Guarantee Fund; updating the financial legislation and improving regulation and supervision; and reinforcing the insurance sector (MEFP, ¶23). Strengthening the central bank independence and completing the transition of BRH accounting toward IFRS are also important. Staff and the authorities agreed that continued implementation of the recommendations of the 2008 FSAP is critical to enhancing financial intermediation and growth. These include the submission to Parliament before end-September 2012 of the laws creating the credit information bureau and establishing a regulatory and supervisory framework for insurance companies.

22. **BRH will continue to improve the transparency and accountability of its operations**. Following the recommendations of the recent safeguards assessment mission, the authorities have: (i) selected both a local and international firm to conduct joint ISA compliant external audits; and (ii) adopted a global reserve management policy overseen by the investment committee. The appointment of the auditors and the formalization of the modalities of the joint audits are work in progress. Further steps include the full adoption of IFRS, including the establishment of a special committee to monitor implementation.

D. External Debt Management

23. **The updated Debt Sustainability Analysis (DSA) suggests that the country's debt distress risk remains high.** The authorities concurred with the conclusion of the updated DSA carried out jointly by IMF and World Bank staff.[7] While Haiti's debt situation has significantly improved since the previous DSA, owing largely to additional debt relief from major partners (including the Fund) after the January 2010 earthquake, it remains fragile and particularly vulnerable to external shocks. The authorities saw merit in relying entirely on highly concessional loans and grants and channeling PetroCaribe resources to high-priority and high-growth impact investments.

24. **The authorities are committed to improving the country's debt management capacity to preserve external debt sustainability.** For that purpose, they have prepared, with the support of the IMF, a public debt law which is expected to be submitted to parliament by end-March 2012 (structural benchmark) that establishes a sound legal and institutional framework for public debt management. Looking ahead, the authorities intend to work with donors to further strengthen the existing debt directorate and develop a medium-term debt management strategy.

[7] Including remittances, the NPV of debt-to-exports and remittances ratio will fall below the 100 percent threshold and the staff's standard assessment of the country's debt distress risk would ease from "high" to "moderate".

E. Structural Reforms

25. **Accelerating structural reforms is vital for sustaining growth, reducing unemployment and poverty**. Staff and the authorities agreed on the need for further reforms to improve the business environment (MEFP, ¶ 25). Key areas of reform include: (i) building a robust legal framework for Public-Private Partnerships to upgrade the infrastructures network and public utilities; (ii) resolving the issue of land titles; (iii) uplifting the legal regime for collateral and establishing a registry for the use of movable assets as collateral; (iv) developing micro finance institutions; and (v) rehabilitating the energy sector. Better governance and institutions would help lower the cost of doing business and boost private investment.

F. Poverty Reduction Strategy

26. **The authorities prepared a progress report on the implementation of their poverty reduction strategy.** The strategy has been outlined in the first national strategy for growth and poverty reduction (2008–10) and in the PARDH, which was crafted in the aftermath of the January 2010 earthquake. In addition to containing immediate responses to the losses and damage caused by the earthquake, the PARDH also outlines a strategic plan for the medium term for creating the conditions to tackle the structural causes of Haiti's under-development and reduce poverty (MEFP, ¶ 26). The January 12, 2010 earthquake was a major setback for Haiti in going forward with that poverty reduction strategy, after several years of progress. The reconstruction is now underway and much progress has been made with support from the international community.

IV. Program Monitoring

27. **Program design and monitoring will remain unchanged**. Definitions of targets, data, and frequency of monitoring are set out in the accompanying updated TMU. The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU. Table 1 shows the quantitative performance criteria to be used in monitoring performance in 2011/12. Structural benchmarks, with corresponding dates, are identified in Table 2. Taking into account the existing administrative capacity, staff and the authorities agreed to focus on a few macro-relevant structural benchmarks, which seek to improve revenue collection, cash management, and public debt management. The fourth review under the ECF arrangement, based on the assessment of end-March 2012 performance, is expected to be completed by June 2012. The fifth review under the ECF arrangement, assessing end-September 2012 performance, is expected to be completed by mid-December 2012.

V. Staff Appraisal

28. **Economic activity has recovered and program implementation to date is broadly satisfactory.** Growth has resumed, inflation remains in single digit levels, and the fiscal and

external positions have strengthened. In contrast, the pace of implementation of structural reforms has generally been slower than anticipated, reflecting predominantly the protracted electoral process and accompanying uncertainties. The economic outlook remains generally positive but subject to risks arising from a potential global downturn, capacity bottlenecks, and the government's lack of political majority in Parliament. In addition, deterioration in the security situation and natural disasters could disrupt economic activity.

29. **The macroeconomic policy mix for 2012 remains appropriate**. Higher government revenue and continued non-priority spending restraint will help create additional fiscal space to ramp up spending on poverty-related and other priority projects. Staff urged the authorities to limit transfers to the energy sector. Monetary policy remains geared toward containing inflation in single digit levels while the reform agenda focuses on fostering financial deepening. The introduction of an unconstrained foreign exchange auctions to give the market a greater say in the day-to-day determination of the exchange rate will help manage capital inflows, absorb external shocks, and improve monetary policy effectiveness.

30. **The quality and efficiency of public investment is crucial to sustain high growth and reduce poverty.** The increase in capital expenditure is ambitious and will put pressure on the absorption and implementation capacities of the economy. This brings forward the need to carefully identify, prioritize, and manage projects to ensure high returns in term of productivity, growth, and social impact. The authorities will be well advised to strengthen the institutions in charge of selecting, designing, monitoring, and implementing the public investment program and its reporting system. Staff encouraged the authorities to use effectively all available technical assistance and financial support, including resources freed up by PCDR, to speed up the reform agenda, accelerate the reconstruction, and support the recovery. Continued and timely delivery of donor commitments is also essential.

31. **Sustained growth depends on accelerating structural reforms.** Staff welcomed the authorities' intentions to enhance revenue administrations and public finance management, pursue appropriate growth-enhancing reforms, including reforms in the legal, judicial, financial and regulatory areas to improve the business environment, lower the cost of doing business, and enhance competiveness.

32. **Strengthening debt management capacity is essential to preserving debt sustainability**. Although it has improved, the debt situation still remains fragile, particularly in light of the narrow export base and the country's vulnerability to external shocks and natural disasters. Staff stressed the need to put in place a well-functioning and efficient debt unit and, most importantly, to continue mobilizing highly concessional support to cover their financing needs.

33. **Staff recommends completion of the second and third reviews under the ECF arrangement,** in light of the good performance so far and the authorities' commitment to the rest of the program.

Table 1. Haiti: Selected Economic and Financial Indicators, 2008/09 - 2012/13

(Fiscal year ending September 30)

Nominal GDP (2011): US$7.4 billion
Population (2009): 9.9 million

	2008/09	2009/10	2010/11		2011/12	2012/13
	Act.	Est.	Prog. (EBS/11/63)	Prov.	Proj.	Proj.
	(Change over previous year; unless otherwise indicated)					
National income and prices						
GDP at constant prices	2.9	-5.4	8.6	5.6	7.8	6.9
GDP deflator	3.4	4.7	6.2	5.9	7.2	5.6
Consumer prices (period average)	3.4	4.1	7.0	7.4	7.7	6.9
Consumer prices (end-of-period)	-4.7	4.7	9.1	10.4	8.0	4.9
External sector						
Exports (f.o.b.)	12.4	1.6	10.7	35.9	23.9	12.4
Imports (f.o.b.)	-3.6	38.2	7.2	4.6	15.1	5.2
Real effective exchange rate (end of period; + appreciation)	2.1	0.8	...	1.6	n.a.	n.a.
Money and credit						
Credit to the nonfinancial public sector (net)	24.5	-122.7	-91.7	229.4	-107.4	470.5
Of which: Net credit to the central government	35.7	-104.3	...	930.9	-157.3	86.3
Credit to private sector	14.7	-5.6	21.6	24.5	16.8	16.0
Base money	9.5	31.2	15.2	6.0	11.2	11.4
Broad money (incl. foreign currency deposits)	11.0	22.7	20.3	10.4	16.1	13.7
	(In percent of GDP; unless otherwise indicated)					
Central government						
Overall balance	-4.6	2.4	-6.2	-3.7	-7.7	-5.8
Overall balance (excluding grants and externally-financed projects)	-4.6	-5.0	-7.4	-4.7	-8.8	-5.5
Domestic revenue	11.2	11.9	11.8	13.1	13.6	13.9
Grants	6.7	17.8	16.3	16.8	15.9	12.2
Expenditures	22.5	27.4	33.8	33.5	37.3	31.8
Current expenditures	11.7	11.3	11.0	11.8	11.4	10.1
Capital expenditures	10.8	16.1	22.7	21.7	25.9	21.7
Savings and investment						
Gross investment	27.4	25.4	38.9	28.0	32.6	30.5
Of which: public investment	10.8	16.1	...	21.7	25.9	21.7
Gross national savings	24.0	22.9	34.6	24.5	28.1	25.0
Of which: central government savings	1.0	4.0	3.0	2.4	3.5	3.8
External current account balance (including official grants)	-3.5	-2.6	-4.2	-3.5	-4.5	-5.5
External current account balance (excluding official grants)	-9.5	-29.9	-23.3	-23.1	-22.9	-19.9
Public Debt						
External public debt (end-of-period)	19.0	13.2	8.8	8.9	12.4	15.0
Total government debt (end-of-period)	27.7	17.1	14.9	10.3	15.1	17.9
External public debt service 1/	3.9	1.6	0.9	0.6	0.7	1.3
	(In millions of U.S. dollars; unless otherwise indicated)					
Overall balance of payments	-109	1,028	-273	167	-181	-71
Net international reserves (program) 2/	416	1,095	772	1,177	979	879
Liquid gross reserves	948	1,792	1,539	2,000	1,843	1,843
In months of imports of the following year	2.8	5.3	4.1	5.3	4.7	4.7
Nominal GDP (millions of Gourdes)	266,559	264,039	308,335	297,687	345,680	390,339
Nominal GDP	6,552	6,551	7,620	7,388	8,335	9,294

Sources: Ministry of Economy and Finance; Bank of the Republic of Haiti; Fund staff estimates and projections; and World Bank estimates.

1/ In percent of exports of goods and nonfactor services. Includes HIPC, MDRI, and PCDR debt relief;

2/ SDR allocation (liability) is not netted out of NIR.

Table 2a. Haiti: Central Government Operations, 2008/09 - 2012/13

(Fiscal year ending September 30; in millions of gourdes)

	2008/09	2009/10	2010/11		2011/12	2012/13
	Act.	Est.	Prog. (EBS/11/63)	Prov.	Proj.	Proj.
Total revenue and grants	47,717	78,551	86,794	88,801	102,066	101,802
Domestic revenue	29,881	31,425	36,459	38,893	46,950	54,132
Domestic taxes	19,954	19,393	22,133	24,460	28,810	34,350
Customs duties	8,958	11,394	13,512	13,672	16,190	19,105
Other current revenue	970	638	814	761	1,950	678
Grants	17,836	47,125	50,335	49,907	55,116	47,670
Budget support	3,873	8,966	6,875	3,492	4,728	210
Project grants	13,962	27,471	43,460	46,416	50,388	47,460
PCDR related grants	0	10,719	0	0	0	0
Total expenditure 1/	60,030	72,251	104,100	99,811	128,847	124,273
Current expenditure	31,136	29,849	33,997	35,231	39,452	39,488
Wages and salaries	13,396	14,563	16,590	14,809	18,027	19,517
Net Operations 2/	7,655	7,040	10,237	7,525	10,454	12,881
Other current expenditures	0	1,023	8,559	0	0	0
Interest payments	2,242	1,569	1,394	1,272	1,394	1,234
External	1,106	452	154	153	229	394
Domestic	1,136	1,118	1,241	1,119	1,165	840
Transfers and subsidies	7,844	6,677	7,454	11,626	9,576	5,855
Of which: energy sector 4/	0	3,793	3,945	8,232	4,583	1,952
Capital expenditure	28,894	42,402	70,103	64,579	89,395	84,785
Domestically financed	10,959	14,689	25,335	17,621	38,007	36,069
Of which: Treasury	2,225	13,475	24,102	16,431	36,859	34,508
Of which: not related to PetroCaribe spending	4,124	9,390	11,215	8,027	16,000	19,517
Of which: related to PetroCaribe spending	6,836	2,991	9,874	7,479	16,113	12,491
Of which: Counterpart funds 3/	1,899	1,214	1,233	1,190	1,148	1,561
Foreign-financed	17,934	27,713	44,767	46,958	51,388	48,716
Overall balance	-12,313	6,299	-18,984	-11,010	-26,781	-22,471
Excluding grants	-30,149	-40,826	-67,641	-60,918	-81,897	-70,141
Excluding grants and externally financed projects	-12,214	-13,113	-22,873	-13,959	-30,509	-21,424
Adjustment (unidentified spending	-565	753	0	-2,681	0	0
Financing	11,749	-5,546	18,984	8,328	26,781	20,371
External net financing	8,141	9,050	13,867	13,032	14,661	14,623
Loans (net)	8,141	9,050	13,867	13,032	14,661	14,623
Disbursements	9,935	9,356	14,079	13,243	14,685	15,116
Budget support	5,963	9,114	12,772	12,700	13,686	13,860
Of whic h: Petrocaribe	5,963	9,114	12,747	13,214	13,686	13,860
Project loans	3,980	3,631	1,307	543	999	1,256
Amortization	-1,794	-306	-212	-77	-24	-494
Arrears (net)	0	0	0	0	0	0
Internal net financing	2,082	-14,596	5,117	-4,704	12,120	5,748
Banking system	644	-16,904	3,884	-8,631	12,580	3,957
BRH	644	-11,248	2,782	-6,648	3,106	3,256
Excluding Petrocaribe	644	-11,344	0	-6,648	0	0
Net T-bills for recapitalization	0	0	4,000	0	0	0
From PCDR account	0	0	2,782	0	2,370	2,500
Commercial banks	0	-5,656	1,102	-1,983	9,474	701
excl. Petrocaribe	0	300	4,000	-300	4,534	2,070
Net purchase of T-bills	0	300	4,000	-300	4,534	2,070
Nonbank financing	1,439	2,308	1,233	3,927	-460	1,791
Amortization	-460	0	-300	-300	-2,112	-504
Counterpart funds 3/	1,899	1,214	1,233	1,190	1,148	1,561
Net purchase of T-bills	0	0	0	0	504	230
Arrears (net)	0	0	0	0	0	0
HIPC interim relief	1,383	0	0	0	0	0
Financing gap (in U.S. dollars) 5/	0	0	0	0	0	50
Memorandum items						
Balance of PCDR account (in millions of U.S. dollars)	0	268	199	268	200	120
Stock of T-bills at end of year (in millions of Gourdes)	0	300	8,300	0	5,038	7,338
Transfers to EDH from Petrocaribe resources (million of Go	n.a.	n.a.		3,538	2,488	0

Sources: Ministry of Finance and Economy; and Fund staff estimates and projections.

1/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 onwards.

2/ Includes statistical discrepancy.

3/ Proceeds from sales of grants received in kind.

4/ Includes transfers from Petrocaribe resources in FY2011.

5/ The financing gap is expected to be covered by donor inflows, but no formal pledges have been made.

Table 2b. Haiti: Central Government Operations, 2008/09 - 2012/13

(Fiscal year ending September 30; in percent of GDP)

	2008/09	2009/10	2010/11		2011/12	2012/13
	Est.	Est.	Prog. (EBS/11/63)	Prov.	Proj.	Proj.
Total revenue and grants	17.9	29.7	28.1	29.8	29.5	26.1
Domestic revenue	11.2	11.9	11.8	13.1	13.6	13.9
Domestic taxes	7.5	7.3	7.2	8.2	8.3	8.8
Customs duties	3.4	4.3	4.4	4.6	4.7	4.9
Other current revenue	0.4	0.2	0.3	0.3	0.6	0.2
Grants	6.7	17.8	16.3	16.8	15.9	12.2
Budget support	1.5	3.4	2.2	1.2	1.4	0.1
Project grants	5.2	10.4	14.1	15.6	14.6	12.2
PCDR related grants	0.0	4.1	0.0	0.0	0.0	0.0
Total expenditure 1/	22.5	27.4	33.8	33.5	37.3	31.8
Current expenditure	11.7	11.3	11.0	11.8	11.4	10.1
Wages and salaries	5.0	5.5	5.4	5.0	5.2	5.0
Net Operations 2/	2.9	2.7	3.3	2.5	3.0	3.3
Other current expenditures	0.0	0.4	2.7	0.0	0.0	0.0
Interest payments	0.8	0.6	0.5	0.4	0.4	0.3
External	0.4	0.2	0.0	0.1	0.1	0.1
Domestic	0.4	0.4	0.4	0.4	0.3	0.2
Transfers and subsidies	2.9	2.5	2.4	3.9	2.8	1.5
Of which: energy sector 4/	0.0	1.4	1.3	2.8	1.3	0.5
Capital expenditure	10.8	16.1	22.7	21.7	25.9	21.7
Domestically financed	4.1	5.6	8.2	5.9	11.0	9.2
Of which: Treasury	0.8	5.1	7.8	5.5	10.7	8.8
Of which: not related to PetroCaribe spending	1.5	3.6	3.6	2.7	4.6	5.0
Of which: related to PetroCaribe spending	2.6	1.1	3.2	2.5	4.7	3.2
Of which: Counterpart funds 3/	0.7	0.5	0.4	0.4	0.3	0.4
Foreign-financed	6.7	10.5	14.5	15.8	14.9	12.5
Overall balance	-4.6	2.4	-6.2	-3.7	-7.7	-5.8
Excluding grants	-11.3	-15.5	-21.9	-20.5	-23.7	-18.0
Excluding grants and externally financed projects	-4.6	-5.0	-7.4	-4.7	-8.8	-5.5
Adjustment (unidentified spending)			0.0	-0.9	0.0	0.0
Financing	4.4	-2.1	6.2	2.8	7.7	5.2
External net financing	3.1	3.4	4.5	4.4	4.2	3.7
Loans (net)	3.1	3.4	4.5	4.4	4.2	3.7
Disbursements	3.7	3.5	4.6	4.4	4.2	3.9
Budget support	2.2	3.5	4.1	4.3	4.0	3.6
Of which: Petrocaribe	2.2	3.5	4.1	4.4	4.0	3.6
Project loans	1.5	1.4	0.4	0.2	0.3	0.3
Amortization	-0.7	-0.1	-0.1	0.0	0.0	-0.1
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0
Internal net financing	0.8	-5.5	1.7	-1.6	3.5	1.5
Banking system	0.2	-6.4	1.3	-2.9	3.6	1.0
BRH	0.2	-4.3	0.9	-2.2	0.9	0.8
Excluding Petrocaribe	0.2	-4.3	0.0	-2.2	0.0	0.0
Net T-bills for recapitalization	0.0	0.0	1.3	0.0	0.0	0.0
From PCDR account	0.0	...	0.9	0.0	0.7	...
Commercial banks	0.0	-2.1	0.4	-0.7	2.7	0.2
Excluding Petrocaribe	0.0	0.1	1.3	-0.1	1.3	0.5
Net purchase of T-bills	0.0	0.1	1.3	-0.1	1.3	0.5
Nonbank financing	0.5	0.9	0.4	1.3	-0.1	0.5
Amortization	-0.2	0.0	-0.1	-0.1	-0.6	-0.1
Counterpart funds 3/	0.7	0.5	0.4	0.4	0.3	0.4
Net purchase of T-bills	0.0	0.0	0.0	0.0	0.1	0.1
Arrears (net)	0.0	0.0	0.0	0.0	0.0	0.0
HIPC interim relief	0.5	0.0	0.0	0.0	0.0	0.0
Financing gap 5/	0.0	0.0	0.0	0.0	0.0	0.5
Memorandum item:						
Balance of PCDR account	0.0	4.1	2.6	3.6	2.4	1.3
Stock of T-bills at end of period	0.0	0.1	2.7	0.0	1.5	1.9
Transfers to EDH from Petrocaribe resources (million of Gourdes)				1.2	0.7	0.0

Sources: Ministry of Finance and Economy; and Fund staff estimates and projections.

1/ Commitment basis except for domestically financed capital expenditure, which is reported on cash basis from 2007 onwards.

2/ Includes statistical discrepancy.

3/ Proceeds from sales of grants received in kind.

4/ Includes transfers from Petrocaribe resources in FY2011.

5/ The financing gap is expected to be covered by donor inflows, but no formal pledges have been made.

Table 3. Haiti: Summary Accounts of the Banking System, 2008/09 - 2012/13

(Fiscal year ending September 30; in millions of gourdes, unless otherwise indicated)

	2008/09	2009/10	2010/11		2011/12	2012/13
			Prog.			
	Act.	Act.	(EBS/11/63)	Prov.	Proj.	Proj.
			I. Central Bank			
Net foreign assets	24,000	64,127	55,236	72,464	66,877	65,994
(In millions of U.S. dollars)	575	1,606	1,347	1,773	1,592	1,571
Net international reserves (program) 1/	416	1,095	772	1,177	979	879
Commercial bank forex deposits	268	621	689	707	725	804
Net domestic assets	7,080	-23,344	-8,254	-29,229	-18,669	-12,310
Net credit to the nonfinancial public sector	21,549	9,520	11,811	5,276	9,049	12,639
Of which: Net credit to the central government	23,118	12,376	14,652	9,466	12,572	15,828
Of which: T-bills	0	0	4,000	0	0	0
Of which: IMF PCDR Debt Relief	0	-10,704	-8,200	-10,954	-8,393	-5,032
Liabilities to commercial banks (excl gourde deposits)	-20,711	-33,907	-36,756	-35,191	-37,677	-38,953
BRH bonds/Open market operations	-9,552	-9,210	-8,500	-6,328	-7,241	-5,200
Counterpart of commercial bank forex deposits	-11,159	-24,697	-28,256	-28,863	-30,437	-33,753
Other	6,242	1,043	16,691	686	9,959	14,004
Base Money	31,080	40,783	46,982	43,235	48,207	53,683
Currency in circulation	13,448	17,282	19,671	18,400	20,608	23,023
Commercial bank gourde deposits	17,632	23,501	27,311	24,835	27,599	30,661
			II. Consolidated Banking System			
Net foreign assets	40,537	92,209	86,810	104,575	101,132	101,509
(In millions of U.S. dollars)	970	2,309	2,117	2,558	2,408	2,417
Of which: Commercial banks NFA	396	703	770	786	816	846
Net domestic assets	62,257	33,942	64,954	34,749	60,615	82,338
Credit to the nonfinancial public sector	16,461	-3,745	-352	-12,336	912	5,202
Credit to the private sector	43,002	40,585	49,370	50,526	59,028	68,496
In gourdes	19,206	21,708	25,472	28,086	32,196	37,667
In foreign currency	23,796	18,877	23,898	22,440	26,832	30,829
In millions of U.S. dollars	570	473	583	549	639	734
Other	2,794	-2,898	15,935	-3,442	675	8,641
Broad money	102,794	126,151	151,763	139,324	161,747	183,848
Currency in circulation	13,448	17,282	19,671	18,400	20,608	23,023
Gourde deposits	41,182	48,513	57,221	52,164	60,405	68,053
Foreign currency deposits	48,165	60,355	74,871	68,760	80,733	92,772
In millions of U.S. dollars	1,153	1,511	1,826	1,682	1,922	2,209
			(12-month percentage change)			
Currency in circulation	3.2	28.5	13.8	6.5	12.0	11.7
Base money	9.5	31.2	15.2	6.0	11.2	11.4
Gourde money (M2)	9.1	20.4	16.9	7.2	14.8	12.4
Broad money (M3)	11.0	22.7	20.3	10.4	16.1	13.7
Gourde deposits	11.2	17.8	25.0	7.5	15.8	12.7
Foreign currency deposits (U.S. dollars)	13.3	25.3	24.1	13.9	17.4	14.9
Credit to the nonfinancial public sector	24.5	-122.7	-91.7	229.4	-107.4	470.5
Credit to the private sector	14.7	-5.6	21.6	24.5	16.8	16.0
Credit in gourdes	19.2	13.0	17.3	29.4	14.6	17.0
Credit in foreign currency (U.S. dollars)	11.3	-20.7	26.6	18.9	19.6	14.9
Memorandum items:						
Foreign currency bank deposits (percent of total)	53.9	55.4	56.7	56.9	57.2	57.7
Foreign curr. credit to priv. sector (percent of total)	55.3	46.5	48.4	44.4	45.5	45.0
Commercial Banks' Credit to Private Sector (percent of GDP) 2/	15.4	14.6	15.2	16.2	16.3	16.8

Sources: Bank of the Republic of Haiti; and Fund staff estimates and projections.

1/ Excluding commercial bank forex deposits, letters of credit, guarantees, earmarked project accounts and U.S.dollar-denominated bank reserves. The NIR definition has been changed relative to that of the previous program, with the SDR allocation no longer netted out as a liability. This table reports NIR under the new definition. The revised projection for 2009/10 reflects the IMF debt relief of SDR 178.1 million approved on July 21, 2010.

2/ GDP ratio calculated using nominal program figure for 2009 (numerator) and actual nominal GDP (denominator).

Table 4. Haiti: Balance of Payments, 2008/09 - 2012/13

(In millions of U.S. dollars on a fiscal year basis; unless otherwise indicated)

	2008/09	2009/10	2010/11		2011/12	2012/13
	Act.	Act.	Prog. (EBS/11/63)	Prov.	Proj.	Proj.
Current account (including grants)	-227	-167	-323	-262	-375	-514
Current account (excluding grants)	-621	-1,957	-1,773	-1,708	-1,905	-1,848
Trade balance	-1,481	-2,249	-2,384	-2,176	-2,438	-2,496
Exports of goods	551	560	626	761	943	1,060
Of which: Assembly industry	511	522	583	714	891	999
Imports of goods	-2,032	-2,809	-3,010	-2,937	-3,381	-3,556
Of which: Petroleum products	-385	-545	-630	-719	-815	-871
Services (net)	-394	-1,037	-793	-885	-864	-798
Receipts	379	237	340	249	308	379
Payments	-772	-1,274	-1,133	-1,134	-1,172	-1,177
Income (net)	13	22	29	41	33	28
Of which: Interest payments 1/	-18	-7	-4	-4	-6	-9
Current transfers (net)	1,635	3,097	2,826	2,759	2,894	2,753
Official transfers (net)	395	1,790	1,450	1,446	1,530	1,334
Of which: budget support	94	225	169	87	114	5
Private transfers (net)	1,241	1,307	1,376	1,313	1,364	1,419
Capital and financial accounts	501	1,003	50	566	194	443
Capital transfers (HIPC/MDRI/PCDR) 2/	1,069	1,360	486	656	3	3
Debt stock reduction (HIPC/MDRI) 2/	-1,092	-334	-486	-486	0	0
Public sector capital flows (net) 3/	288	218	342	340	351	351
Loan disbursements	225	224	347	341	354	360
Amortization 1/	-38	-6	-5	-2	-3	-9
Foreign direct investment (net)	38	150	107	181	101	118
Banks (net) 4/	57	-307	-67	-83	-30	-30
Other items (net)	142	-84	-333	-42	-231	0
Errors and omissions	-384	192	0	-137	0	0
Overall balance	-109	1,028	-273	167	-181	-71
Financing	109	-1,028	273	-167	181	21
Change in net foreign assets	-48	-1,031	273	-167	181	21
Change in gross reserves	-259	-828	253	-211	157	0
Liabilities	211	-203	20	44	24	21
Utilization of Fund credits(net)	61	-146	21	13	23	15
Other liabilities	149	-57	0	30	1	6
Debt rescheduling and debt relief	157	3		0	0	0
Financing gap						50
Memorandum items:						
Current account (in percent of GDP)	-3.5	-2.6	-4.2	-3.5	-4.5	-5.5
Excluding official transfers	-9.5	-29.9	-22.8	-23.1	-22.9	-19.9
Exports of goods, f.o.b (percent change)	12.4	1.6	10.7	35.9	23.9	12.4
Imports of goods, f.o.b (percent change)	-3.6	38.2	7.2	4.6	15.1	5.2
Debt service (in percent of exports of goods and services)	3.9	1.6	0.9	0.6	0.7	1.3
Gross liquid international reserves (in millions of U.S. dollars) 2/	948	1,792	1,539	2,000	1,843	1,843
(in months of next year's imports of goods and services)	2.8	5.3	4.1	5.3	4.7	4.7

Sources: Bank of the Republic of Haiti; and Fund staff estimates and projections.

1/ Includes HIPC/MDRI debt relief beginning in 2010. HIPC/MDRI interim debt relief in 2009 is reflected below the line.

2/ Includes operations under the HIPC/MDRI in 2009, PCDR in 2010, and debt cancellations by IDB, World Bank, and Venezuela in 2010-11.

3/ In 2009, including an SDR allocation of $101 million.

4/ Includes NIR and commercial banks' foreign currency deposits with the BRH.

Table 5. Haiti: Aggregate Financial Soundess Indicators of the Banking System, 2003-2011

(In percent unless otherwise indicated)

	Year Ending September 30								End-December	End-March	End-June	End-September
	2003	2004	2005	2006	2007	2008	2009	2010	2010	2011		
Size and Growth												
Total assets (in millions of Gourdes)	50,916	55,931	65,811	72,519	79,764	100,302	107,913	137,937	140,814	146,247	149,851	153,995
o/w central bank bonds	3,818	3,544	5,527	7,684	9,008	9,397	9,552	9,249	9,099	9,120	8,294	6,328
o/w total loans	17,146	18,179	22,065	22,750	24,670	31,187	35,405	30,901	32,457	32,877	34,659	40,076
Total assets (in US$ millions) 1/	1,348	1,488	1,751	1,929	2,122	2,510	2,583	3,454	3,531	3,656	3,746	3,850
Total Deposits (in millions of Gourdes)	43,029	48,057	56,771	61,311	66,031	84,725	92,460	119,253	122,261	127,149	131,099	135,549
Net Profits (loss) (in millions of Gourdes)	175.5	13.5	114.3	414.4	202.3	483.7	359.8	862.7	465.8	474.8	455.3	612.1
Credit/GDP	13.5	12.2	12.3	10.2	10.9	10.8	13.3	11.8	12.2	12.3	13.0	15.0
Deposits/GDP	35.8	34.2	33.8	30.6	29.2	34.6	37.8	44.7	45.8	47.6	49.1	50.8
Credit growth (net) from year before 2/	33.7	5.1	5.6	13.7	9.9	29.3	14.2	-12.7	-9.5	7.3	15.8	31.5
Capital adequacy												
Regulatory capital to risk-weighted assets 3/	0.0	0.0	16.5	14.3	19.0	12.6	16.4	13.4	16.4	...	...	...
Capital (net worth) to assets	5.4	5.3	5.0	5.3	7.0	6.1	6.7	6.2	6.5	6.4	6.1	6.2
Asset quality and composition												
Loans (net) to assets	31.9	30.5	31.5	28.2	28.3	29.1	30.9	21.3	22.1	21.6	22.3	25.1
NPLs to gross loans	5.5	7.4	12.4	11.1	10.0	9.7	8.5	5.7	5.4	4.8	5.0	3.7
Provisions to gross loans	5.4	6.2	6.1	9.9	8.5	6.4	5.9	4.8	4.2	3.9	3.8	3.4
Provisions to gross NPLs	96.8	82.9	49.1	89.3	85.5	66.4	69.6	84.1	77.5	80.0	76.5	93.1
NPL less provisions to net worth	1.1	7.8	42.2	7.0	6.4	15.6	12.6	3.2	4.3	3.4	4.5	1.1
Earnings and profitability (annualized)												
Net Earnings/Assets (ROA)	1.9	0.8	0.7	1.8	1.0	2.0	1.4	2.6	1.3	1.3	1.2	1.6
Net Earnings/Equity (ROE)	35.0	15.1	12.8	34.2	14.7	30.9	20.5	41.9	21.0	20.5	19.7	26.3
Net interest income to gross interest income	65.7	55.1	71.8	72.2	67.1	80.0	87.3	86.6	90.9	91.3	91.5	91.7
Operating expenses to net profits	69.4	79.9	80.5	70.7	86.0	73.5	74.1	57.7	68.0	67.0	68.5	67.6
Efficiency												
Interest rate spread in Gourdes 4/	17.0	14.9	11.9	11.7	10.2	12.4	19.5	20.0	20.0	...	...	...
Interest rate spread in US dollar 4/	6.5	11.0	11.0	7.8	8.9	10.7	10.9	11.4	11.4	...	...	...
Liquidity												
Liquid assets to total assets 5/	45.0	46.5	43.6	45.3	46.5	35.4	46.9	51.0	51.1	51.1	50.2	49.5
Liquid assets to deposits 5/	53.0	54.1	50.5	54.5	56.1	41.9	44.4	51.3	51.5	...	...	...
Market Risk												
Foreign currency loans to total loans (net)	0.0	57.2	59.3	66.0	70.1	69.3	68.9	60.1	59.7	59.0	56.8	55.7
Foreign currency deposit to total deposits	50.9	47.3	52.6	53.6	52.4	58.2	56.9	60.3	60.5	61.3	61.7	62.3

Source: Banque de la Republique d'Haiti (BRH); and Fund staff estimates.

1/ The figures for all years were converted from Gourdes at the same 12/31/06 exchange rate of 37.5917 Gourdes /US dollar.
2/ Net credit is equaled to gross loans less non performing loans.
3/ The legal requirement is 12 percent.
4/ Defined as the difference between average lending rate and average fixed deposit rate in the banking system.
5/ Liquid assets include cash and central bank bonds.

Table 6. Haiti: Indicators of External Vulnerability, 2008/09 - 2012/13 [1/]

(Units as indicated)

	2008/09	2009/10	2010/11	2011/12	2012/13
			Prov.	Proj.	
Debt indicators					
Total external public debt (in percent of GDP)	19.0	13.2	8.9	12.4	15.0
Total external public debt (in percent of exports) [2/]	133.7	108.3	65.1	82.4	97.1
External debt service (in percent of GDP)	0.6	0.2	0.1	0.1	0.2
Amortization	0.4	0.1	0.0	0.0	0.1
Interest					
External debt service (in percent of exports) [2/]	3.9	1.6	0.6	0.7	1.3
External debt service (in percent of current central govt. revenues)	4.9	1.7	0.6	0.8	1.4
Other indicators					
Exports (percent change, 12-month basis in U.S. dollars)	11.6	-14.3	26.8	23.9	15.0
Imports (percent change, 12-month basis in U.S. dollars)	-1.7	45.6	-0.3	11.8	4.0
Remittances and grants in percent of gross disposable income	19.9	32.0	27.1	25.7	22.8
Real effective exchange rate appreciation (+) (end of period)	2.1	0.8	1.6	n.a.	n.a.
Exchange rate (per U.S. dollar, period average)	40.7	40.3	40.3	41.5	42.0
Current account balance (millions of US dollars) [3/]	-226.6	-167.4	-261.9	-375.0	-513.7
Capital and financial account balance (millions of US dollars) [4/]	501.2	1003.5	566.1	194.4	442.7
Public sector	287.9	218.2	339.5	350.9	351.2
Private sector	213.3	785.3	226.6	-156.5	91.5
Liquid gross reserves (millions of US dollars)	947.5	1792.0	1999.7	1842.6	1842.6
In months of imports of the following year [2/]	2.8	5.3	5.3	4.7	4.7
In percent of debt service due in the following year	7283	30685	22988	10157	5280
In percent of base money	127.4	175.5	189.1	160.5	144.2

Sources: Bank of the Republic of Haiti; and Fund staff estimates and projections.

1/ Reflects HIPC/MDRI relief.
2/ Goods and services.
3/ Including grants.
4/ Includes in the private sector FDI, short-term capital, and errors and omissions in addition to bank flows.

Table 7. Haiti: Indicators of Capacity to Repay the Fund, 2013-2023 [5/]

(Units as indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund obligations based on existing credit (in millions of SDRs)											
Principal	0.0	0.0	0.0	1.6	3.3	3.3	3.3	3.3	1.6	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)											
Principal	0.0	0.0	0.0	1.6	4.3	6.7	8.2	8.2	6.6	3.9	1.5
Interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit											
In millions of SDRs	0.0	0.1	0.1	1.7	4.4	6.8	8.3	8.2	6.6	3.9	1.5
In millions of U.S. dollars	0.0	0.2	0.2	2.7	6.6	10.4	12.6	12.6	10.0	6.0	2.3
In percent of											
exports	0.0	0.0	0.0	0.2	0.4	0.5	0.6	0.5	0.4	0.2	0.1
government revenues	0.0	0.0	0.0	0.2	0.28	0.3	0.3	0.3	0.2	0.1	0.0
reserves	0.0	0.0	0.0	0.1	0.4	0.6	0.7	0.7	0.5	0.3	0.1
debt service	0.0	0.4	0.3	3.2	6.3	8.2	8.5	7.6	5.5	3.1	1.1
quota	0.0	0.1	0.1	2.1	5.3	8.3	10.1	10.0	8.0	4.8	1.8
Outstanding Fund credit (end of period)											
In millions of SDRs	41.0	41.0	41.0	39.3	35.1	28.3	20.1	12.0	5.4	1.5	0.0
In millions of U.S. dollars	62.7	62.7	62.6	60.1	53.5	43.3	30.8	18.3	8.3	2.3	0.0
In percent of											
exports	4.4	4.1	3.8	3.4	2.8	2.1	1.4	0.8	0.3	0.1	0.0
government revenues	4.9	4.2	3.7	3.2	2.4	1.8	1.2	0.7	0.3	0.1	0.0
reserves	3.4	3.4	3.4	3.3	2.9	2.3	1.7	1.0	0.4	0.1	0.0
debt service	345.6	179.6	100.3	71.7	50.9	34.3	20.8	11.0	4.5	1.1	0.0
quota	50.0	50.0	50.0	48.0	42.8	34.6	24.6	14.6	6.6	1.8	0.0
Memorandum items:											
Exports [1/ 2/]	1.4	1.5	1.6	1.8	1.9	2.0	2.2	2.3	2.4	2.6	2.8
Government revenues [1/ 3/]	1.3	1.5	1.7	1.9	2.2	2.4	2.5	2.7	2.9	3.1	3.3
Reserves [1/ 4/]	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Debt service [1/]	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Quota (in millions of SDRs)	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9	81.9
GDP [1/]	9.3	10.3	11.3	12.4	13.4	14.2	15.2	16.2	17.2	18.4	19.6

Sources: Haitian authorities; and Fund staff projections.

1/ In billions of U.S. dollars.
2/ Exports of goods and services
3/ Central government domestic revenues.
4/ Gross liquid international reserves, end of period.
5/ Haiti's fiscal year runs from October to September.

Table 8. Haiti: Proposed Schedule of Disbursements, 2010-2013

Amount	Availability Date	Conditions for Disbursement [1/]
SDR 8,190,000	July 15, 2010	Executive Board approval of the three-year arrangement under the ECF.
SDR 8,190,000	January 15, 2011	Observance of performance criteria for September 2010 and completion of the first review under the ECF arrangement.
SDR 4,914,000	July 15, 2011	Observance of performance criteria for March 2011 and completion of the second review under the ECF arrangement. [2/]
SDR 4,914,000	January 15, 2012	Observance of performance criteria for September 2011 and completion of the third review under the ECF arrangement. [2/]
SDR 4,914,000	July 15, 2012	Observance of performance criteria for March 2012 and completion of the fourth review under the ECF arrangement.
SDR 4,914,000	January 15, 2013	Observance of performance criteria for September 2012 and completion of the fifth review under the ECF arrangement.
SDR 4,914,000	July 15, 2013	Observance of performance criteria for March 2013 and completion of the sixth review under the ECF arrangement.

[1/] Other than the generally applicable conditions for the Extended Credit Facility (ECF) arrangement.

[2/] The second and third reviews will be combined.

APPENDIX I. LETTER OF INTENT

February 14, 2012

Mrs. Christine Lagarde
Managing Director
International Monetary Fund
Washington D.C. 20431
United States of America

Dear Mrs. Lagarde:

1. Haiti's reconstruction is under way. We have fully restored essential state functions, reduced camp occupancy from an estimated 1.3 million to around 600,000, ensured the return of many children to school, and removed 4 out of 11 million cubic meters of debris from the January 10, 2010 earthquake. But the pace of economic recovery has been weaker than anticipated, owing to delays in disbursement of international assistance, lower public investment spending, the cholera epidemic, and adverse weather conditions in the agricultural sector.

2. Performance under the program supported by an Extended Credit Facility (ECF) arrangement has been broadly satisfactory. All performance criteria for end-March and end-September 2011were met. Four structural benchmarks were met, including one with delays. Implementation of the five remaining structural benchmarks, which was delayed on account of the protracted electoral process (MEFP, Table 2b) is well advanced.

3. Looking forward to 2012, we intend to bolster our reconstruction efforts and implement a coherent set of macroeconomic policies in support of sustained growth and poverty reduction. In this context, we will make use of all available resources, including those freed by the PCDR. Most importantly, we intend to sustain the good performance of domestic revenue by further broadening the tax base and strengthening the tax and customs administrations. The structural reform agenda will focus on enhancing public financial management and economic governance, strengthening the financial sector, and formulating and implementing an action plan aimed at improving the business environment.

4. In support of these policies and in view of the progress made in implementing the program supported by the ECF arrangement, the government requests the conclusion of the second and third reviews and the approval of the third and fourth disbursements for a cumulative amount equivalent to SDR 9.8 million. The fourth review, assessing performance based on end-March 2012 targets is scheduled for June 2012. The fifth review, assessing performance based on end-September 2012 targets is envisaged for December 2012.

5. We will regularly update the IMF on economic and policy developments and will provide the data needed for adequate monitoring of the program. The government will continue its policy dialogue with the IMF and is prepared to take any further measures as

appropriate to meet its program objectives. We will consult with the Fund ahead of any revisions to the measures outlined in the MEFP, in accordance with the Fund's policies on such consultation.

6. The Government authorizes the IMF to publish this letter, the attached Memorandum of Economic and Financial Policies, and the related Staff Report, including placement of these on the IMF website, following the IMF Executive Board's conclusion of the review.

Sincerely yours,

/s/
Andre Lemercier Georges
Minister of Economy and Finance
Ministry of Economy and Finance

/s/
Charles Castel
Governor
Bank of the

APPENDIX II. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. **The economy is recovering and the program has remained broadly on track**. Looking ahead, the Government of Haiti (GoH) is determined to step up efforts to accelerate the reconstruction, safeguard macroeconomic stability, press ahead with the reform agenda, and work with its partners to create the conditions for sustained growth and poverty reduction.

2. **This Memorandum of Economic and Financial Policies (MEFP) supplements and updates the MEFPs that have preceded it since July 2010**. It reviews recent economic developments and progress in implementing the GoH's macroeconomic and structural program under the Extended Credit Facility (ECF) arrangement, approved by the IMF Board on July 10, 2010. It also sets out macroeconomic policies and structural reforms that the GoH will pursue for the remainder of FY2012 (fiscal year ending in September).

II. RECENT ECONOMIC DEVELOPMENTS

3. **The economic recovery is underway.** After a 5.4 percent decline in 2010 mainly attributable to the impact of the January 12 earthquake, real GDP grew in 2011 by an estimated 5.6 percent. Construction, manufacturing, and services picked up significantly last year, by 9.2 percent, 13.5 percent, and 5.2 percent, respectively. In contrast, agricultural output (25 percent of GDP) increased only by about 1.1 percent because of unfavorable harvest conditions in the second half of 2011. Rising international food and energy prices, together with the fall in domestic agricultural output, have pushed year-on-year headline inflation to 10.4 percent at end-September before receding to 8.3 percent in December 2011.

4. **FY 2011 ended with an overall fiscal deficit of 3.7 percent of GDP**, **against a programmed deficit of 6.2 percent.** This performance reflected both higher-than-projected revenue performance and delays in domestically-financed capital spending. The share of domestic revenue to GDP rose to 13.1 percent, mainly on account of the resumption of tax and customs administration which was destroyed by the January earthquake, renewed collection efforts on the taxe sur chiffre d'affaires (TCA) and on profits and income taxes, the introduction of the "vignette" (a fee on vehicle registration),[1] and the adoption of a new software at the unit in charge of large taxpayers. Current expenditures were contained, reflecting our efforts to limit the wage bill and non-priority spending in a context of uncertain budget support disbursements. Capital spending was lower-than-budgeted. While weak administrative capacity continued to hinder project implementation, this underperformance

[1] The payment of the fee was predicated on the provision by the taxpayer of an income declaration. This led to a significant widening of the taxpayer base.

was also attributable to the protracted electoral agenda as well as delays (5 months) in forming a new government.

5. **The external position has strengthened.** The current account deficit in 2011 was 3.5 percent of GDP compared with a programmed level of 4.2 percent. Merchandise exports increased by 36 percent reflecting a stronger-than-expected effect of the improved market access to the U.S. under the HOPE/HELP initiatives. Transfers and foreign direct investment inflows were also somewhat higher than envisaged, and the overall balance of payments recorded a surplus of 2.3 percent of GDP, against a programmed deficit of 3.5 percent of GDP. Consequently, the build-up of international reserves continued and, at end-December 2011, gross international reserves reached US$2 billion (5.3 months of imports).

III. PERFORMANCE UNDER THE PROGRAM

6. **Performance under the economic program supported by an arrangement under the ECF has been broadly satisfactory.** Our program is on track with regard to the end-March and end-September 2011 performance criteria. We also met all end-March and end-June 2011 indicative targets, with the exception of the ceiling on base money growth and the floor on poverty-related expenditures. However, the ceiling on base money growth was observed at end-September 2011. Four structural benchmarks were met, including one with delays. Implementation of the five remaining structural benchmarks, which was delayed on account of the protracted electoral process (MEFP, Table 2b).

IV. GOVERNMENT PROGRAM FOR 2012

7. **The GoH is committed to addressing the key challenges facing Haiti, including sustaining high growth, reducing poverty, and strengthening the country's resilience to external and natural shocks**. In this connection, we will implement a set of coherent macroeconomic policies and a reform program reflecting our strategic priorities, i.e. an increase in the domestic revenue intake, and an improvement in governance to attract more investment and promote private sector-led growth. We are, however, aware that some risks remain. These include a reversal of the downward trend in international food prices; continued drought conditions in some key rural areas; delays in disbursements of international assistance; sanitary challenges, notably those associated with the cholera epidemic; and our weak administrative capacity.

8. **Policies will focus on supporting the economic recovery and the reconstruction activities while safeguarding macroeconomic stability**. The main macroeconomic objectives for 2012 are: (i) a real GDP growth rate of 7.8 percent, supported by the take-off of reconstruction activities and a rebound in agriculture; (ii) an inflation target of about 8 percent, on the assumption of receding international food and fuel prices buoyant domestic food output; (iii) a current account deficit of 4.5 percent of GDP; (iv) an overall fiscal deficit of 7.7 percent of GDP; and (v) a level of gross international reserves equivalent to about 4.7 months of imports.

A. Macroeconomic Policies

Growth policy

9. **We will implement a robust pro-growth and employment policy supported by both private and public investments.** Private sector jobs creation will be our main priority so as to reduce poverty and promote economic growth. This strategy will be made possible by a full valorization of the country's potential for growth in agriculture, agro-industry, tourism, housing reconstruction, and manufacturing in the context of industrial parks projects.

10. **In support of this strategy, we will actively seek to encourage domestic and foreign direct investment, including from the Haitian diaspora**. To attract capital, we will develop new tools and facilities, including integrated economic zones and industrial parks. We will also improve business regulations through implementing the "Doing Business" plan, facilitate access to credit, including with the Partial Credit Guarantee Fund (PCGF), and launch new initiatives (*Service d'Aide aux Entreprises et de Formation*) to support small- and medium sized enterprises, particularly in preparing business plans, while the access to public investment projects and programs will be encouraged and eased for the SMEs. Finally, we will increasingly rely on Public-Private Partnerships to improve infrastructures and public utilities and support private projects with adequate public participation.

Fiscal policy

11. **We remain committed to fiscal sustainability while accelerating the reconstruction of the country.** We will continue efforts to raise revenue, and contain non priority recurrent expenditure. At the same time, we will increase capital expenditures to rebuild infrastructure and boost the country's growth prospects. We will also strive to increase and better target pro-poor spending, so as to provide support to households in need. On this basis, we will target an overall fiscal deficit equivalent to 7.7 percent of GDP for 2012.

12. **In FY2012, domestic revenue is projected to increase to G 46.9 billion (13.6 percent of GDP).** To achieve this target, we intend to introduce a set of measures, detailed in paragraph 17. In addition, we will not renew all tax exemptions passed in the context of the 2011 budget (and outlined in the April 25, 2011 MEFP attached to the staff report for the first ECF review). We have also fully incorporated the recently-introduced fees on incoming international calls and international financial transactions into the budget. Budget support grants are expected to reach G 4.7 billion (US$114 million, or 1.4 percent of GDP), with disbursements expected mostly in the second half of the fiscal year.

13. **Current expenditure is set at G 39.5 billion, or 11.4 percent of GDP, up from G 35.2 billion, or 11.8 percent of GDP, in FY 2011.** We envisage a wage bill of G 18 billion, slightly rising its share of GDP to 5.2 percent to accommodate projected new

hires in the social sectors. In order to avoid ex-post regularization in civil service hiring which complicates budget execution, the OMRH (*Office pour le Management des Resources Humaines*) will prepare a comprehensive employment strategy for the public administration. We are also committed to containing expenditures in goods and services, and to make sufficient budget allocations to ensure full payment of electricity bills to electricity company EDH during FY 2012.[2] We will present all government support to EDH in budget documents and the monthly TOFE, including support from PetroCaribe accounts (about G 3.6 billion in FY2011 or 1.2 percent of GDP) to further enhance transparency and accountability. As a result of our continuing effort to improve its management, including through the signing of a memorandum of understanding with foreign partners to rehabilitate the sector, budgetary subsidies to EDH are projected to be halved this year to about G 4.4 billion (1.3 percent of GDP).

14. **We plan to significantly raise public investment, in order to boost growth and accelerate the reconstruction effort.** Domestically- financed investment is projected at G 38 billion (11 percent of GDP), more than double its level in FY 2011. Almost half of domestically-financed investment will be funded by Treasury resources (G 16 billion, or 4.6 percent of GDP, up from G 8 billion executed in FY 2011). The Petro Caribe envelop will also increase to G 16.1 billion (4.7 percent of GDP). We are aware of the risks associated with the use of PetroCaribe-debt resources, and are committed to channel them to high-priority, high-growth impact investments with full transparency on their use. To that effect, we will include them in the monthly TOFE starting January 2012 and regularly publish execution reports on all Petro Caribe-related transactions.

Monetary and exchange rate policies

15. **Our monetary policy will aim at containing inflationary pressures**. Our program for FY 2012 targets an 11.2 percent increase in base money and a 16.1 percent increase in credit to the private sector. On the assumptions of a rebound in domestic food production and receding international food and fuel prices, we are targeting an inflation rate of 8 percent. However, should inflationary pressures persist, we stand ready to increase the policy rate and tighten liquidity conditions (through issuance of BRH or T-bills). In this context, we will take steps to strengthen market-based monetary operations and improve liquidity management.

16. **Exchange rate policy will be more flexible**. To that end, by end-September 2012, we will establish an unconstrained single price foreign exchange auction (instead of sales in which both price and quantity are fixed) to improve the functioning of the foreign exchange market. Furthermore, BRH interventions in the foreign exchange market will continue to be

[2] The reconciliation of government's liabilities to utility companies, including EDH will be finalized soon. Meanwhile, we have allocated 1.6 billion gourde in the budget to settle these liabilities.

limited to smoothing excessive fluctuations, while allowing for a buildup of international reserves. Lastly, we will continue to closely coordinate monetary and exchange rate policies.

B. Structural Reforms

Revenue and tax and customs administration

17. **Looking forward, we are fully committed to adopting a set of measures to significantly raise revenue collection.** The emphasis will be on strengthening tax and custom administration, simplifying the tax system and broadening the tax base. In particular, we will; (i) increase the excise tax on cigarettes and alcohol *(structural benchmark)* by March 2012, while enhancing controls over those excise taxes through the introduction of new « vignettes » and the increase on the right to license debits of these products; and (ii) reduce tax and customs exemptions. As part of the latter, NGOs asking for tax and customs exemptions will have to provide a certificate indicating their compliance with the law regarding their activities, their program, their staff, the salaries paid, and copies of their final tax declarations. Other measures will include: (i) encouraging taxpayers who were subjected to tax adjustments over the past three years to submit revised tax declarations and settle their tax obligations; (ii) strengthening controls over casinos and house games; (iii) enhancing the awareness and use of the ASYCUDA; (iv) launching the process to revise, harmonize, and rationalize customs tariffs and code; and (v) setting the stage for the transformation of the current turnover tax into a full VAT system.

18. **Together with our development partners, we will implement a comprehensive reform program to improve revenue administration**. In particular, we will set up: (i) a tax policy unit within the MEF *(structural benchmark)*; and (ii) a Medium Taxpayers Unit within the Direction Générale des Impôts *(structural benchmark).*

Public financial management (PFM) and economic governance

19. **We will continue to work together with our development partners to improve PFM and economic governance,** by streamlining and strengthening budget preparation, and improving monitoring and control procedures. In particular, we will make sure that the draft budget for FY2013 is submitted to Parliament and vetted by the Court of Accounts in a timely manner. We will improve its presentation by: (i) disclosing appropriations for investment projects in a format consistent with the budget administrative and economic classifications, and the government chart of accounts; and (ii) starting with the draft budget law 2012-2013, we will attach a rolling medium-term fiscal framework covering the budget year and two more years ahead. By September 2012, we will publish within 30 days of the end of each quarter quarterly data on the disbursements of the projects accounts presented according to the budget economic classification and to the Government chart of accounts.

20. **We will rationalize government accounts by imposing that each public entity can open only one current account for current spending and a strictly limited number of accounts for capital outlays before introducing Treasury Single Account (TSA).** To that effect, we will prepare by March 2012 a plan with a clear time line that will include measures to: (i) close dormant accounts of the central government at the central bank or commercial banks; (ii) establish the list of accounts used by public entities; (iii) strengthen the network of public and sectoral accountants through better training and adequate human resources; (iv) update the legal framework for the TSA; and (v) reduce the number of domestically-funded imprest accounts to two by ministry or institution (one for current and one for capital spending), and give the signature on these accounts to public accountants appointed by the MEF. By end-June 2012, we will close all dormant accounts of the central government at the central bank or commercial banks and establish the list of accounts used by public entities (structural benchmark).

21. **We will improve the coordination between fiscal and monetary policy**. To that effect, by March 2012, we will: (a) start publishing on the BRH website reports 10R, 20R, and 610R on a monthly basis; (b) give to the MEF full electronic access to government accounts at BRH; (c) put in place a joint committee MEF/BRH whose task is to meet twice a month to reconcile data between both entities. By June 2012, we will: (a) publish every month within 30 days of the end of the month a summary fiscal table fully reconciled with the government net position at the central bank; and (b) sign an agreement between the MEF and the central bank redefining the rights and obligations of the BRH as cashier and banker of the government. We are taking steps to enhance project management and efficient use of public resources by publishing within 30 days of the end of each quarter quarterly data on the disbursements of the projects accounts.

22. **We will publish the remaining decrees of the procurement code**, in order to strengthen the role of the Commission Nationale des Marchés Publics (CNMP) and accelerate reconstruction efforts. We will also swiftly implement all the remaining steps to ensure that the resources freed up by the PCDR are effectively disbursed according to best international practices.

Financial sector

23. **The government has continued making progress in the implementation of financial sector reforms**. For FY 2012, the government remains committed to (i) strengthening the operations of the PCGF, including a fee structure and coverage of the guarantee to provide incentive to banks while avoiding the moral hazard; (ii) pursuing our legislative agenda to update financial legislation; (iii) ensuring that the law creating the credit information bureau is submitted to Parliament before end-September 2012; (iv) reinforcing the insurance sector through the establishment of a regulatory and supervisory framework for insurance companies for which a new law will be submitted at the Parliament by end-September 2012; and (v) strengthening central bank independence through the submission to

Parliament of a revised central bank law by end-September 2012. We will continue implementation of the pending recommendations from the 2010 safeguards assessment update.

External debt management

24. **The government intends to continue efforts to improve the debt management capacity.** Key actions for 2012 include: (i) submission to Parliament by end-March 2012 of a public debt law that establishes a sound legal and institutional framework for public debt management (*structural benchmark)*; and (ii) completion of a medium-term debt management strategy, based on a comprehensive analysis of the sustainability of total public debt. Further, the debt unit will be strengthened with fully operational middle and back office functions and the capability to produce annual debt sustainability analyses. By March 2012, we will strengthen the debt unit with fully operational middle and back office functions and prepare annual debt sustainability analyses *(structural benchmark).*

Others structural reforms

25. **The promotion of private sector activity and investment will remain at the center of our reform agenda.** We will continue our efforts to: (i) establish a robust legal framework for Public-Private Partnerships to help promote, with the assistance from technical partners, investment both in infrastructures and public utilities and in specific sectors, inducing the development of export industries, including textiles, agribusiness, and tourism; (ii) strengthen the legal framework for investment to enhance governance so as to improve the business environment through the preparation of an "Action plan" based on the results of the "Doing Business 2012. This Plan will aim at: (i) simplifying the legal and regulatory framework for investments in export-processing zones, including the revamping of the investment promotion office as an effective one-stop shop for potential investors; (ii) reforming the current land title issues facing investors, and finalizing the purchase of specific pieces of land by the government to build government buildings and implement specific private-sector projects; (iii) uplifting the legal regime for collateral and establishing a registry for the use of movable assets as collateral. For microfinance institutions, we intend to submit to Parliament a new law aimed at strengthening the regulation of this sector. In the electricity sector, a Memorandum of Understanding was signed between the government and key partners, including the U.S. and the IDB, to strengthen the sector. A contract will be signed with an international firm to oversee and improve the management of EDH. The authorities intend to continue working with their partners to modernize the sector and rehabilitate the distribution network to reduce technical losses.

PRSP

26. **We have prepared a progress report on the implementation of our poverty reduction strategy since 2008.** The strategy has been defined in the first national strategy for growth and poverty reduction (2008–10) and in the Action Plan for National Recovery

and Development of Haiti (PARDH). The PARDH, presented to the international community at the UN conference in New York in March 2010, outlines immediate responses to the losses and damage caused by the earthquake, but also includes a number of key initiatives for creating the conditions to tackle the structural causes of Haiti's under-development. The PARDH is built around four key pillars, including territorial rebuilding, economic rebuilding, social rebuilding, and institutional rebuilding. Key priorities for the short term are to (i) improve accommodation for the homeless; (ii) engineer the return of children to school and students to university and vocational training centers; (iii) pursue efforts to restore a sense of normality to economic life, especially by creating large numbers of jobs through high-intensity work, and guaranteeing stability in the financial sector and access to credit for SMEs; and (iv) continue to reorganize state institutions. The second stage has a time horizon of ten years, allowing it to take into account three programming cycles of the National Strategy for Growth and Poverty Reduction.

C. Program Monitoring

27. **Our program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying revised TMU**. The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU. Table 1 shows the quantitative performance criteria to be used in monitoring performance in 2011/12. Structural benchmarks, with corresponding dates, are identified in Table 2. The fourth review under the ECF arrangement, assessing end-March 2012 performance criteria, is expected to be completed by June 2012. The fifth review under the ECF arrangement, assessing end-September 2012 performance criteria, is expected to be completed by mid-December 2012.

Table 1. Haiti: Indicative Targets and Quantitative Performance Criteria, December 2010 - September 2012

(In millions of gourdes, unless otherwise indicated)

	Actual stock at end- Sept. 09	Cumulative Flows from September 2009																	
		Sep 2010		Dec 2010		March 2011	March 2011	June 2011	June 2011	Sept. 2011	Sept. 2011	Dec. 2011	Dec. 2011	Mar. 2012	June 2012	Sept. 2012	Dec. 2012	Mar. 2013
		PC (EBS/10/186) /1	Actual	Indicative target (EBS/10/186) /1	Actual	PC (EBS/10/186) /1	Actual	Indicative target	Actual	PC (EBS/11/63)	Actual	EBS/11/63	Projected outcome	PC (EBS/11/63)	Indicative target	PC	Indicative target	Indicative target
I. Quantitative performance criteria																			
Net central bank credit to the non-financial public sector - ceiling	21,549	370	-12,522	370	-9,808	370	-11,639	-11,608	-13,332	-9,740	-16,273	-8,525	-14,852	-7,309	-15,926	-12,090	-11,331	-10,572
Central Government [2/]	23,118	171	-11,289	171	-14,016	171	-15,962	-10,375	-17,353	-8,507	-19,863	-7,291	-18,390	-6,076	-13,434	-7,742	-5,504	-2,955
Rest of non-financial public sector	-1,569	198	-1,233	198	-1,549	198	-1,853	-1,233	-2,085	-1,233	-2,621	-1,233	-2,542	-1,233	-2,697	-1,954	-1,871	-1,788
Net domestic assets of the central bank - ceiling [3/]	13,987	-493	-18,008	2,003	-14,183	2,437	-15,354	-30,807	-17,367	-20,894	-18,309	-15,784	-20,813	-17,448	-11,488	-5,383	-3,014	-645
Net international reserves of central bank (in millions of U.S. dollars) - floor	416	129	693	139	707	148	697	550	747	355	762	370	783	384	683	563	538	513
II. Continuous performance criteria																			
Domestic arrears accumulation of the central government	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New contracting or guaranteeing by the public sector																			
of nonconcessional external or foreign currency debt (In millions of U.S. dollars) [4/]	0	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Up to and including one year	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Over one-year maturity	0	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33	33
Public sector external arrears accumulation (in millions of U.S. dollars)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
III. Indicative targets																			
Change in base money - ceiling	31,080	4,671	9,703	7,551	14,113	8,371	12,535	11,966	12,505	15,902	12,156	21,352	10,496	20,027	15,843	17,128	18,497	19,866
Net domestic credit to the central government - ceiling [5/]	19,540	-2,909	-17,214	-684	-13,960	-433	-20,898	-14,282	-23,215	-10,937	-24,685	-6,067	-18,199	-6,585	-11,361	-6,710	-1,698	-509
Poverty reducing expenditures - floor [6/]		9,597	8,094	12,716	8,094	15,835	8,094	17,451	8,094	20,570	8,094	23,689	12,149	26,808	20,258	24,313	29,584	34,855
Memorandum items																			
Change in currency in circulation	13,448	2,142	3,835	4,768	6,900	5,039	5,004	5,713	4,890	6,223	4,953	12,117	4,721	9,728	6,626	7,161	7,764	8,368
Net domestic credit to the rest of the non-financial public sector	-1,641	145	-1,291	145	-1,637	145	-1,937	-29,196	-2,173	-1,338	-2,688	-17,582	-2,619	-20,539	-2,775	-2,032	-1,948	-1,865
Government total revenue, excluding grants	29,881	26,258	31,425	34,168	41,329	42,469	50,800	58,439	60,212	67,520	70,319	78,402	81,064	89,649	104,203	117,269	171,180	234,025
Government total expenditure, excluding externally-financed investment	41,531	44,239	45,251	57,950	53,954	70,391	65,138	82,061	76,392	99,388	93,963	117,637	151,813	134,584	167,343	162,735	167,343	162,735

Sources: Ministry of Finance, Bank of the Republic of Haiti, and Fund staff estimates.

1/ Reflecting modified targets for NIR and NFA, as per EBS/10/186.

2/ Excluding spending of resources freed by IMF PCDR debt relief.

3/ For program monitoring purposes, NDA is defined as monetary base minus program NIR in gourde terms. Program exchange rate of G40 per US$.

4/ Excludes guarantees granted to the electricity sector in the form of credit/guarantee letters.

5/This includes central bank, commercial bank, and non-bank financing to the government. It includes net T-bill issuance for government financing.

6/ Poverty reducing expenditures consist of domestically-financed spending in health, education, and agriculture.

Table 2a. Haiti: Status of the Implementation of Structural Reform Measures in 2010

Macro-criticality	Objective	Structural Benchmarks		Status
Prior Actions				
Safeguards assessment	Improve reliability of program data		Completion of the audit of foreign reserves to confirm the levels of end-September 2009 and end-September 2010 level of unencumbered reserves.	Completed
End-September 2010				
1-Improve the tracking of poverty-reducing expenditures	Publish regular reports on poverty-reducing spending on the MEF website.	1a	Continue publishing quarterly reports on poverty-reducing expenditures on the MEF website, including domestically-financed health, education and agriculture spending.	Met
2-Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Strengthen the transparency of expenditure policy.	2a	Start publishing central government monthly transfers to investment project accounts, project by project, including PetroCaribe projects.	Met with delay
		2b	Start publishing central government monthly transfers by beneficiary entity.	Met
	Improve control of budget execution and fiscal reporting.	2c	Start preparing monthly consolidated Treasury balances (TMU ¶38).	Met with delay
	Improve cash management.	2d	Prepare an inventory of all government and donor accounts at the BRH and BNC (TMU ¶39).	Met with delay
3-Raise government revenue	Strengthen operation of tax and customs administrations.	3a	Prepare quarterly reports with monthly data on the performances of the tax system and the tax administration, including the cost of exemptions and revenue collected in the provinces (TMU ¶40).	Met
	Enhance the transparency of the tax exemption policy.	3b	Start publishing a quarterly report that identifies all fiscal expenditure by beneficiary sectors.	Met
	Introduce a new tax code that would increase revenue and rationalize the tax system.	3c	Set up a working group that would be tasked to prepare a study to simplify the tax system, increase revenue, improve tax productivity, custom and fiscal administration, establish a work program with specific deadlines (TMU ¶37).	Met with delay
4-Improve the monetary policy framework and its effectiveness	Improve timeliness of external audits of the BRH; enforce rotation of external auditors.	4a	Completion and publication of externally audited financial statements for 2008/09.	Met

Table 2b.Haiti: Status of Implementation of Structural Reform Measures in 2011

Macro-criticality	Objective		Structural Benchmarks	Timing	Status
Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 3a, 3b	End-March 2011	Met
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve cash management.	2f	Start preparing and publishing monthly cash plans including PetroCaribe spending and financing needs.	End-March 2011	Not Met.
	Improve the tracking of investment spending and improve ability to make multi-year investment projections.	2g	Start producing quarterly reports with monthly data of investment expenditure based on SYSGEP and publish them on the MEF website.	End-March 2011	Not met.
Improve the monetary policy framework and its effectiveness	Enforce rotation of external auditors to audit BRH accounts.		Select an international firm to conduct ISA compliant external audit for the FY 2011 audit, for a period of 3 to 6 years.	End-July 2011	Not met.
	Strengthen foreign exchange reserves management.		Adoption of a global reserves management policy by the investment committee, covering all foreign exchange reserves.	End-June 2011	Met
Strengthen fiscal discipline and transparency by improving budget preparation, expenditure control and cash management	Improve the transparency of government transfers to the energy sector	2h	Identify and consolidate all sources of transfers to EDH in regular monthly reports.	End-June 2011	Met
	Enhance the quality of spending of investment projects, including those financed with PetroCaribe resources and PCDR debt relief.	2i	Launch the bids for the selection and hiring of the international consulting agency that will assist UCP and other project implementation units in the government	End-June 2011	Not met.
		2j	Prepare a plan of action / operational manual describing: a. Modalities to recruit staff with project management skills and responsibility for ordering payments for project work orders. b. A defined set of information, project lists and accounts to be regularly published online to ensure full transparency on project execution and planning. c. Clear practices to ensure the coordination between the UCP, the Procurement Commission (CNMP) and the Ministry of External Cooperation and Planning (MPCE), in full compliance with national budget execution rules.	End-September 2011	Not met.
Continued benchmarks			Continue publishing reports listed under 1a, 2a, 2b, 2c, 2h, 3a, 3b	End-September 2011	Met

Table 2c. Haiti: Proposed New Measures Through end-December 2012

Macro-criticality	Objective	Structural Benchmarks	Timing
Debt management	Complete the setting-up of the debt unit at the MEF and build capacity to prepare a medium-term debt strategy.	Strengthen the debt unit with fully operational middle and back office functions; Preparation of annual debt sustainability analyses.	End-March 2012
	Strengthen the legal framework for debt management.	Submit to Parliament a public debt law that would establish a sound legal and institutional framework for public debt management.	End-March 2012
Tax policy and revenue administration	Increase revenue	Increase the excise tax on cigarettes and alcohol	End-March 2012
	Improve revenue collection	Put in place within the Directorate General of Taxes a unit in charge of medium & large enterprises	End-September 2012
Macro fiscal management	Improve overall macroeconomic management	Put in place the fiscal policy unit within the MEF	End-September 2012
Cash management	Improve cash management and enhance transparency in spending	Close all dormant accounts of the central government at the central bank or commercial banks andestablish the list of accounts used by public entities	End-June2012
Continued benchmark	Improve coordination between fiscal and monetary policy	Start publishing on the BRH website reports 10R, 20R and 610R on a monthly basis	End-March 2012
Exchange rate management	Improve the functioning of foreign exchange market	Establish unconstrained single price foreign exchange auctions	End-September 2012

APPENDIX III: HAITI: TECHNICAL MEMORANDUM OF UNDERSTANDING–UPDATE

1. Haiti's performance under the program supported by the Extended Credit Facility (ECF) will be assessed on the basis of the observance of quantitative performance criteria as well as compliance with structural benchmarks. This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, specification of certain structural benchmarks, and indicative targets for the period July 1, 2010-March 30, 2013, specified in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). It also lays down the monitoring and reporting requirements. Performance criteria for end-September 2012 and quantitative indicative targets for end-June 2012, end-December 2012, and end-March 2013 have been set."

I. INSTITUTIONAL DEFINITIONS

2. **Central government.** The central government comprises the presidency, prime minister's office, parliament, national courts, treasury, line ministries and "organismes déconcentrés". It includes expenditures financed directly by foreign donors through ministerial accounts (comptes courants).

3. **Non-financial public sector**. The non-financial public sector includes the central government plus non-budgetary autonomous organizations, local governments and public sector enterprises (enterprises and agencies in which the government holds a controlling stake of more than 50 percent of the shares).

4. **Total public sector**. The total public sector comprises the non-financial public sector and the central bank, the Bank of the (BRH).

II. QUANTITATIVE TARGETS

A. Net BRH Credit to the Non-Financial Public Sector

5. Net BRH credit to the non-financial public sector equals net central bank credit to the central government plus net central bank credit to the rest of the non-financial public sector.

6. The change in net BRH credit to the central government is defined as, and will be measured using:

   a. Change in net domestic credit to the central government from the BRH according to Table 10R of the BRH.

   b. Change in the stock of project accounts ("Comptes de projets") included in Table 10R of the BRH will be excluded from change in net domestic credit to the central government as defined above.

c. Change in the stock of Special Accounts ("Comptes Spéciaux") and seized values ("Valeurs Saisies UCREF") included in Table 10R of the BRH will be excluded from the change in net domestic credit to the central government as defined above. [1]

7. The change in net central bank credit to the rest of the non-financial public sector, is defined as, and will be measured using:

a. Change in "créances nettes sur le secteur public" (i.e, net credit to the non-financial public sector) minus the change in "créances nettes sur l'état" (i.e. net credit to the central government), according to table 10R of the BRH.

8. The changes will be measured on a cumulative basis from the stock at end September 2009.

B. Net Domestic Financing to the Central Government

9. Net domestic financing to the central government will comprise the change in net banking sector credit to the central government (defined below) plus the change in nonbank financing which includes amortization, counterpart funds,[2] and the net issuance of Treasury bills and other government securities by the central government to non-banks. Net domestic banking sector credit to the central government is defined as, and will be measured, using:

a. The change in the stock of net domestic credit to the central government from the BRH according to Table 10R of the BRH, plus, the change in the stock of net domestic credit of the central government from domestic banks according to Table 20R of the BRH, which will include the net issuance of treasury bills and other government securities by the central government for government financing purposes. Securities issued for the recapitalization of the BRH are excluded from this definition.

b. The change in the stock of project accounts ("Comptes de projets"), as defined in 6.b above, will be excluded from the change in net domestic banking sector to the Central Government.

c. The change in the total stock of Special Accounts ("Comptes Spéciaux") and seized values ("Valeurs Saisies UCREF"), as defined in 6.c above, will be excluded from the change in net domestic banking sector to the Central Government.

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[1] Special Accounts ("Comptes Spéciaux") refer to U.S. dollar-denominated central government sight deposits at the BRH. The balance of these accounts increases with the proceeds of the sales of in-kind aid (in the form of wheat, maize, rice, etc.) received by the Haitian government; these proceeds are earmarked to finance specific projects and cannot be used by the Central Government without the explicit authorization of respective donors.

[2] Counterpart funds are proceeds from sales of grants received in kind.

10. The changes will be measured on a cumulative basis from the stock at end-September 2009.

C. Net International Reserves

11. The change in net international reserves will be measured using:

   a. Change in net foreign assets ("Réserves de change nettes" of the BRH Table 10R);[3]

   b. Minus the change in foreign currency deposits of commercial banks at the BRH ("Dépôts à vue en dollars U.S. et en Euros des BCM à la BRH", and the "CAM transfer" of the BRH Table 10R).

   c. Minus the change in the stock of project accounts ("Comptes de projets") as defined in 6.b above.

   d. Minus the change in the stock of Special Accounts ("Comptes Spéciaux") in dollars and Euros (and excluding gourdes), and seized values ("Valeurs Saisies UCREF"), the latter as defined in 6.c above.

   e. Plus the change in the stock of the Special Drawing Rights (SDR) allocation ("Allocations DTS") from the BRH Table 10R.

12. Data will be expressed in U.S. dollar terms and valued at the corresponding end-period market exchange rate from the BRH Table 10R.

13. For definition purposes, net international reserves (NIR) are the difference between the BRH's gross foreign assets (comprising monetary gold, all claims on nonresidents, SDR holdings, and BRH claims in foreign currency on domestic financial institutions) and reserve liabilities (including liabilities to nonresidents of one-year maturity or less, use of Fund credit, and excluding the full SDR allocation, and trust funds).[4] Swaps in foreign currency with domestic financial institutions and pledged or otherwise encumbered reserve assets are excluded from NIR.

14. The changes will be measured on a cumulative basis from the stock at end-September 2009.

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[3] Letters of credit and guarantee ("Lettres de crédit" and "Lettres de garantie") are reported in Table 10R as part of BRH foreign liabilities ("Engagements extérieurs"), and therefore are already netted out of NIR.

[4] Program NIR does not net out the full SDR allocation on the liability side since it is a long-term liability to the SDR Department (and not the Fund).

D. Net Domestic Assets of the BRH

15. The change in net domestic assets of the BRH is defined as, and will be measured using:

a. The change in base money (program definition according to Section I. below);

b. Minus the change in the U.S. dollar amount of net international reserves (program definition according to section C above), converted into gourdes at the program exchange rate.

16. The program definition of net domestic assets of the BRH will use a program exchange rate of G 40.0 per U.S. dollar for the period June 2010- March 2013.

17. The changes will be measured on a cumulative basis from the stock at end-September 2009.

E. PetroCaribe-Related Funds

18. As of November 30, 2011, the outstanding balance of Petro Caribe funds totaled US$ 279 million, with US$75 million held in U.S. dollar-denominated sight deposits of the central government at the BRH, and the remaining US$204 million in U.S. dollar-denominated deposits of the central government at domestic commercial banks.

19. The authorities indicated that they were exploring options to channel new PetroCaribe/ALBA-related inflows through a binational Venezuela-Haiti corporation.[5] Until new institutional arrangements are finalized and the statutes of the new societé mixte are published in the "Journal Officiel" (Le Moniteur), PetroCaribe-related inflows will continue to constitute direct external debt of the central government. These resources are under the direct control of the central government, and, for program purposes, will be fully reflected in the fiscal tables underpinning the program. They will be treated as budget support loans, whose proceeds are partly or entirely deposited in government accounts in the banking system (Petro Caribe deposits). Spending from Petro Caribe resources (up to US$400 million in FY 2012), financed with a drawdown of Petro Caribe deposits in the banking system, will also be fully reflected in program tables.

20. Following ratification of the societé mixte, the annual budgets of the company will be published on the MEF website before the beginning of the fiscal year. Audited annual financial statements will be published within six months of the end of each financial year.

F. Non Concessional Public Sector External and Foreign-Currency Denominated Debt

21. The definition of debt comprises all forms of debt, including loans, suppliers' credits, and leases, that constitute current, i.e. not contingent, liabilities, which are created under a

[5] ALBA refers to "Alternativa Boliviarana de las Americas".

contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require the obligor to make one or more payments in the form of assets (including currency) or services, at some point in the future, as set forth in Executive Board Decision No. 12274, Point 9, and revised on August 31, 2009.

22. A ceiling applies to the contracting and guaranteeing by the public sector of new non concessional debt with nonresidents with original maturities of one year of more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This covers private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector.

23. For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind).

24. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.[6] The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt, based on the currency specific commercial interest reference rates (CIRRs) as laid out by the Organization for Economic Cooperation and Development (OECD).[7] For a debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and hence, its grant element. For debt with maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margin for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

25. Excluded from the ceiling are short-term import-related credits, rescheduling arrangements, borrowing from the Fund, non-resident purchases of treasury bills, and guarantees for the electricity sector in the form of letters of credit.

26. The ceilings for contracting and guaranteeing of non concessional debt by the total public sector (as defined in paragraph 4) will be set at zero continuously throughout the program period.

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[6] The grant element calculator can be found at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

[7] The grant element calculations will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

G. Arrears of the Central Government

27. External payment arrears are defined as overdue payments (principal and interest) to non-residents on debt contracted and guaranteed by the central government, and will be defined according to the terms of indebtedness of each creditor. The criterion of zero accumulation of external arrears will be monitored on a continuous basis.

28. Domestic arrears of the central government are defined to include: (i) any bill that has been received by a spending ministry from a supplier for goods and services delivered (and verified) and for which payment has not been made within 90 days after the due date of payment; (ii) wage, salary, and other payment to government employees, including direct and indirect allowances, that were due to be paid in a given month but remained unpaid on the 30th of the following month; and (iii) interest or principal obligations which remain unpaid 30 days after the due date of payment. This definition excludes changes in the stock of arrears on account of interest, penalties and valuation changes.

H. Base Money

29. The change in base money is defined as, and will be measured using:

a. The change in the stock of currency in circulation from Table 10R of the BRH.

b. The change in the stock of reserve deposits of commercial banks at the BRH, from Table 10R, using gourde sight deposits of commercial banks (dépôts a vue en gourdes des BCM a la BRH) and cash-in-vault of commercial banks (encaisses des BCM).

30. The changes will be measured on a cumulative basis from the stock at end-September 2009.

I. Poverty-Reducing Expenditures

31. The growth in poverty reducing expenditure will be measured as the sum of domestically-financed spending for the Ministries in charge of agriculture, health, and education. This will be a flow measured on a cumulative basis from end-September 2009.

III. Quarterly Adjustments

32. The quarterly performance criteria and indicative targets will be adjusted for as indicated below:

A. Adjustment for Domestic Arrears Accumulation

33. The ceilings for net BRH credit to the central government and the net domestic banking sector credit to the central government will be adjusted downwards for the amount of outstanding domestic arrears accumulation.

B. Adjustment for Petro Caribe-related Inflows

34. Until the bi-national company expected to administer Petro Caribe-related funds is legally established, any drawdown of Petro Caribe-related deposits will be considered as central government spending for program purposes.

35. The ceiling for net domestic credit to the central government will include movements in Petro Caribe accounts in the banking system and will be adjusted for the difference between the actual stock of Petro Caribe deposits in the banking system and programmed stock of these deposits in the banking system. The ceilings for net BRH credit to the central government, on BRH net domestic assets, and the floor for NIR will also include movements in Petro Caribe accounts at the BRH. They will be will be adjusted for the difference between the actual stock of Petro Caribe deposits at the BRH and the programmed stock of these deposits at the BRH. The adjustor will be calculated on a cumulative basis from October 1, 2009.

C. Adjustment for Budgetary Cash Grants in Second Half of FY2012

36. The performance criteria ceilings on BRH net credit to the central government, net domestic financing to the government, and on BRH net domestic assets, and the floor on NIR reflect expected budgetary donor grants of the equivalent of G 4.7 million (about US$114 million) during FY2012 (US$13million, France US$22million, Spain US$22 million, World Bank US$27 million, and IDB US$30 million).

37. If actual grant inflows are lower (higher) than programmed, these performance criteria ceilings will be adjusted upward (downward), and the performance criterion floor will be adjusted downward (upward), by the amount of the difference between actual and programmed inflows."

38. The adjuster will be calculated on a cumulative basis from October 1, 2009.

V. CLARIFICATION OF STRUCTURAL CONDITIONALITY

A. Fiscal Sector

39. As specified on Tables 2a and 2b, the publications of the following items related to benchmarks will continue over the program period: 1a, 2a, 2b, 2c, 3a, 3b, and 2h. Publication should occur on the specified regular basis (i.e. monthly or quarterly), with no gaps or unjustified delays.

40. The structural benchmark on raising government revenue will involve designing and implementing monitorable performance indicators for DGI and AGD (by end-December 2011). These should include detailed information by industry (AGD) and taxpayer segment (DGI) and a set of ratios to verify "tax effort" and efficiency, in line with TA recommendations. The reports should be published monthly on the MEF website.

41. The new structural benchmark related to the increase in the excise tax on cigarettes and alcohol will entail the application of stamps (“vignettes”) on tobacco and alcoholic beverages in order to strengthen inspection and fiscal controls, and an upward revision of specific or ad valorem excises, as appropriate, to such product, in order to approach excise duties to the international average for these products.

42. The new structural benchmark related to the establishment of a fiscal policy unit within the MEF will require the creation of a separate service within the MEF tasked exclusively with analyzing fiscal measures and simulating their impact on budget balances and the economy as a whole. The perimeter of such unit should be clearly delimited within the MEF, by appropriate written communication of the Minister or the Director General (to be shared with the IMF) nominating the officer in charge of the unit, its staffing and its duties.

43. The new structural benchmark related to putting in place within the Directorate General of Taxes a unit in charge of small and medium enterprises will require an official act (to be shared with the IMF) setting up a separate unit within the DGI tasked with dealing with medium taxpayers, follow and streamline the administrative issues related to such taxpayers segment. Adequate staffing and office space should be provided to this unit and the act establishing the unit should include the nomination of the person in charge of it and its immediate aides.

44. The new structural benchmark related to the closing of dormant accounts and the establishing of a list of all account of used by public entities entails compiling a census of accounts both at the Central Bank and in commercial banks, and the creation of a permanent set of rules governing the closing of dormant accounts (both list and set of rules to be shared with the IMF). These would include time lags since last activity, threshold on balances and rules on how the sums should be transferred to the Treasury.

45. The structural benchmark on strengthening the debt unit will require permanently providing adequate office space and staffing to such unit; nominating the officer in charge of it and setting up its tasks with an official communication from the Minister or the Director General (to be shared with the IMF); the MEF should, by coordination of its services, produce annual debt sustainability analyses and make them available to the Fund, all MEF services, the BRH and the MPCE.

46. The structural benchmark on submitting a public debt law will require transmission to Parliament (and sharing with the IMF) of a draft debt law in line with international standards and with the recommendations of development partners TA.

B. Monetary Policy and Financial Sector

47. The benchmark on strengthening exchange rate management will involve the development of an exchange rate management strategy also encompassing reform of the foreign exchange market (end-December 2011).

IV. Provision of Information

48. To ensure adequate monitoring of the program, the authorities will provide daily, weekly and monthly monetary and fiscal indicators to IMF staff, details of any loan contract or guarantee to be ratified by a non-financial public sector entity, including public enterprises, before signature, as well as other data upon request.

A. Daily

49. The exchange rate.

B. Weekly

50. *Monetary Indicators*: (a) Stock of BRH bonds; (b) Deposits at commercial banks (in gourdes and U.S. dollars); (c) Credit to private sector (in gourdes and U.S. dollars); (d) Credit to central government and public sector (net); (e) Currency in circulation, (f) base money, (g) details of inflows and outflows of gross foreign exchange reserves, (h) volume of foreign exchange transactions, of which BRH sales and purchases; (i) gross international reserves; and (d) net international reserves (NIR). The NIR data will be reported using the following table format.

Haiti: Net International Reserves BRH, End-December 2011

(In millions of U.S. dollars)

A. Gross Foreign Exchange Reserves	2,098.6
B. Gross Liabilities	254.2
C. Net Foreign Assets (=A-B)	**1,844.3**
D. FX deposits of commercial banks and CAM transfer at the BRH	757.4
E. Project accounts	6.9
F. Special accounts in U.S. dollars and euros	3.5
G. Seized values	0.0
H. SDR allocation (liability)	122.0
J. NIR (=C-D-E-F-G+H)	**1,198.5**

Source: Haitian authorities; and Fund staff estimates.

51. *Fiscal Indicators*: (a) Revenues (internal, external, other) and (b) Expenditures on cash basis (wages and salaries, goods and services, external debt, current accounts).

52. These data will be reported with maximum five-day lag preliminary data (four weeks for final data).

C. Monthly

53. **Monthly data**

- Table 10 R and Table 20 R with a maximum of 30-day lag for final data.
- Tableau on the comptes courants with a maximum of 30-day lag for final data.
- "Project Accounts", by donor, with a maximum of 30-day lag for final data
- Tableau de trésorerie de devises with a maximum of 30-day lag for final data.
- Tableau des Operations Financières de l'Etat (within 20 days).
- Table underlying the TOFE which enables the determination of checks in circulation and balance on investment project accounts (TOFE-extension).
- Set of external debt tables with a maximum 30-day lag for final data.
- Report of revenue collection of DGI (Rapport d'activités), with a maximum 30-day lag for final data.
- The aide memoire table, which includes monetary policy indicators (foreign exchange interventions, Gourde and foreign currency credit and deposits, monetary financing).
- Tables of revenue collection of AGD (Indicateurs d'activités aux ports, Rapport analytique des perceptions douanières à l'importation), with a maximum 30-day lag for final data.
- Balance of Bureau de Monetization accounts, including spending from "fonds de contrepartie" those movements related with flows linked to the ALBA-PetroCaribe agreement. Balance of PetroCaribe/ALBA-related deposits at commercial banks and the BRH, with a maximum 30-day lag for final data.

Haiti. PetroCaribe Deposits, 2009-2012

	2009		2010				2011				2012		
	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sept.
Total deposits in government accounts in the banking system													
Cumulative flows (millions of Gourdes)		1804.3	1520.7	2309.4	3204.9	3779.8	3975.0	6095.7	4887.8	3652.8	2417.8	1182.9	-52.1
in US dollars (millions of US dollars)		42.4	43.2	62.4	84.3	99.0	102.1	154.4	122.4	91.9	61.4	31.0	0.6
Stocks (millions of Gourdes)	3713.2	5517.5	5233.9	6022.5	6918.1	7493.0	7688.2	9808.9	8601.0	7366.0	6131.0	4896.0	3661.0
in US dollars (millions of US dollars)	88.9	131.3	132.1	151.3	173.2	187.9	191.0	243.3	211.3	180.7	150.3	119.8	89.5
Deposits in government accounts at the BRH													
Cumulative flows (millions of Gourdes)		-90.3	-93.0	-96.1	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0	-96.0
in US dollars (millions of US dollars)		-2.2	-2.1	-2.2	-2.2	-2.2	-2.2	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3
Stocks (millions of Gourdes)	171.0	80.7	78.0	74.9	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
in US dollars (millions of US dollars)	4.1	1.9	2.0	1.9	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8
Deposits in government accounts in commercial banks													
Cumulative flows (millions of Gourdes)		1894.6	1613.7	2405.4	3300.9	3875.8	4071.0	6191.7	4983.8	3748.8	2513.8	1278.8	43.8
in US dollars (millions of US dollars)		44.6	45.4	64.6	86.5	101.2	104.3	156.6	124.7	94.1	63.6	33.2	2.9
Stocks (millions of Gourdes)	3542.2	5436.8	5155.9	5947.6	6843.1	7418.0	7613.1	9733.8	8526.0	7291.0	6056.0	4821.0	3586.0
in US dollars (millions of US dollars)	84.8	129.4	130.1	149.4	171.3	186.0	189.1	241.4	209.5	178.9	148.4	118.0	87.7

Sources: Haitian Authorities; and IMF Staff estimates and projections.

D. Quarterly

54. Report on poverty-reducing expenditures, with a maximum 30-day lag for final data.

E. Other Information

55. The authorities will share with staff the by-laws of the new binational (Venezuela-Haiti) entity (as soon as they are enacted), including any and all needed information to assess the nature of such new entity; the authorities will also share with staff the financing terms of any financing received by such entity, including any and all information needed to assess whether any financing flows received by such new entity constitute public debt (direct and/or contingent) of any form.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

HAITI

Joint Bank-Fund Staff Debt Sustainability Analysis 2012

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

Approved by Gilbert Terrier and Taline Koranchelian (IMF)
and Rodrigo A. Chaves and Jeffrey D. Lewis (IDA)

February 23, 2012

The updated DSA was prepared jointly by the Fund and Bank staffs in accordance with the Joint Fund-Bank Debt Sustainability Framework (DSF) for low-income countries (LICs).[1] *HIPC and MDRI debt reliefs have been complemented with additional debt relief to help Haiti overcome the devastating earthquake of January 2010. As a result, Haiti's external debt burden has been significantly reduced (with the PV of debt to export ratio—the most critical sustainability measure—falling below 50 percent at end-2011). However, over the medium term rapid debt build up is expected, and the PV of debt to export ratio will reach the sustainability threshold of 100 percent of exports in 2017. Over the long-term, the PV of debt to export ratio will remain above 100 percent (peaking at 129 percent in 2024). Consequently, the staffs continue to assess Haiti's risk of debt distress as being high.*[2] *The narrow export base continues to challenge Haiti's debt sustainability; no standard stress test leads to a breach of any thresholds with the exception of the PV of debt to export threshold which is breached in all six standard stress tests. In the most extreme stress test (the combination shock), the PV of debt to export ratio peaks at 195 percent in 2019. This stress test points to the need to continue to carefully monitor the evolution of external debt.*

I. Background

1. **Haiti's nominal external public debt as of end-2011 was US$657 million (Text Table 1).**[3] In present value (PV) terms, the external public debt was US$479 million or

[1] World Bank and IMF (2009). "Review of Some Aspects of the Low-Income Country Debt Sustainability Framework." (IDA/SecM2009-0397; SM/09/216; BUFF/09/146).

[2] Haiti is classified as a weak performer based on its three-year 2008-10 average score of 2.90 in the World Bank's Country Policy and Institutional Assessment (CPIA) framework. For weak performers (defined as those with three-year average CPIA ratings below 3.25), the indicative thresholds for external debt sustainability are PV debt-to-GDP ratio of 30 percent, PV debt-to-exports ratio of 100 percent, PV debt-to-revenue ratio of 200 percent, debt service-to-exports ratio of 15 percent, and debt service-to-revenue ratio of 25 percent.

[3] Unless otherwise noted, data are presented on a fiscal year basis. Haiti's fiscal year ends in September.

the equivalent of 48 percent of exports, 50 percent of government revenue, and 7 percent of GDP. Haiti's external creditors are Venezuela (71 percent of total nominal debt), Taiwan Province of China (14 percent), the International Fund for Agricultural Development (IFAD) (10 percent), the IMF (4 percent) and the Organization of the Petroleum Exporting Countries (OPEC) (2 percent). The structure of external debt has undergone a significant change in recent years: the share of debt owed to traditional development partners has dropped owing to debt relief, while the share of debt owed to non-Paris Club bilaterals has increased reflecting continued new disbursements from Venezuela**.**

Text Table 1. Haiti: Public Sector External Debt
(In millions of U.S. dollars; end of fiscal year)

	2009	2010	2011
Total	1,243	863	657
Multilaterals	677	569	102
IMF	166	13	26
OPEC	7	8	11
IFAD	48	62	66
IDB	418	486	0
IBRD/IDA	39	0	0
Bilaterals	567	294	555
Venezuela	295	134	466
Taiwan Province of China	90	89	89
France	82	71	0
Spain	40	0	0
Italy	58	0	0
Canada	2	0	0

Source: Haitian authorities.

2. **Haiti's external debt burden has been significantly reduced owing to debt relief.** After having earlier benefitted from HIPC/MDRI-related debt relief, Haiti received additional debt relief following the devastating earthquake in January 2010. This debt relief include the following initiatives:

- The **IMF** extended debt relief in July 2010 to Haiti in the amount of SDR 178.13 million (about US$268 million) from the Post-Catastrophe Debt Relief (PCDR) Trust.[4]

[4] Established in June 2010, the PCDR Trust allows the Fund to join international debt relief efforts when poor countries are hit by the most catastrophic of natural disasters. Debt relief under the PCDR Trust frees up additional resources to meet exceptional balance of payments needs that arise from such catastrophes and subsequent economic recovery efforts. The Trust was initially financed by SDR 280 million (equivalent to around $422 million) of the IMF's own resources, and is expected to be replenished through future donor contributions, as necessary.

- The **World Bank** provided debt relief on Haiti's outstanding debt of SDR 24.3 million (about US$36 million as of May 21, 2010). The debt relief became effective in May 2010 when the 14 donors to the Debt Relief Trust Fund agreed to allocate the resources needed to cover the debt cancellation.

- The **IDB** provided debt relief in the amount of US$486 million. The debt relief was approved in March 2010 and delivered in October 2010 upon receipt of committed donor financing.

- The **IFAD** has established a Haiti debt relief account into which donors contribute funds. Pending the receipts of sufficient funds to cancel Haiti's debt to IFAD, current debt service falling due to IFAD is paid from this account. Currently, the debt relief account holds sufficient funds to service Haiti's debt to IFAD through 2020.

- **Venezuela** cancelled all outstanding PetroCaribe-related debt as of January 25, 2010 in the amount of US$395 million. This debt relief included a cancellation of the end-September 2009 stock of debt (US$295 million) and disbursements over the October 2009—January 2010 period (US$100 million).

- **Taiwan Province of China** waived interest payments for a period of five years. It also agreed to shift back the schedule of principal repayments by five years.

3. **The central government's** domestic debt to state-owned enterprises amounted to G 1.9 billion stemming mainly from recent agreements about the settlement of past payments of goods and services received. The non-financial public sector is a net creditor to the consolidated banking system (G 12.3 billion as of end-2011) mainly reflecting the central government's unspent balances in the IMF Post-Catastrophe Debt Relief account (G 10.8 billion) and in the PetroCaribe account (G 11.6 billion).

II. EXTERNAL DEBT SUSTAINABILITY OUTLOOK, 2012-2032

4. **The baseline macroeconomic framework for the long-term debt sustainability analysis has been revised to take into account recent developments.** Key macroeconomic assumptions are summarized in Box 1 and in Text Table 2.

Box 1. Macroeconomic Assumptions

Growth and inflation. In 2011, real GDP recovered from the earthquake-related contraction in 2010. Major reconstruction projects and buoyant exports will jumpstart growth in 2012 and 2013. Over the medium term, several large infrastructure projects and the adoption of efficiency-enhancing reforms of the public sector are expected to foster a more enabling environment for private sector-led growth and buttress the economy's resilience to shocks. Long-run growth is assumed to be 4.5 percent underpinned by an ICOR of 5.1. High food and fuel prices pushed up consumer prices in 2011. Inflation is expected to revert to the low, single-digit level from 2013 onwards.

Fiscal policy. The overall balance deficit is 7.7 percent in 2012 and 5.8 percent in 2013. Over the medium term, it gradually decreases to 2.9 percent in 2032. Domestic revenues will increase gradually from 13.1 percent of GDP in 2011 to 16.9 percent of GDP in 2023 (and remain constant thereafter), thanks to the implementation of a recently launched reform program to overhaul revenue administration, increase excise taxes and streamline direct taxation. Whereas capital expenditures are projected to gradually decline from 26 percent of GDP in 2012 to 10 percent of GDP in 2032, current primary expenditures will remain constant at 10-11 percent of GDP.

Grants and financing. Donor assistance (grants, including humanitarian assistance, and concessional loans, but excluding debt relief) was close to US$3 billion in 2010 and US$2 billion in 2011. This assistance is projected to gradually decrease to US$1.3 billion by 2017. Beyond donors' commitment horizon, it is assumed that assistance will continue at the level of US$1.3 billion annually (with a grant/loan mix of 60/40 percent). Following the introduction of a Treasury-bill market in 2011, residual domestic financing needs—i.e., domestic financing less drawings from the PCDR account (expected to be fully drawn down by 2015) and PetroCaribe account (discussed in Box 2)—will be met through the issuance of Treasury-bills. The majority of those are expected to be bought by local commercial banks, as T-bills are set to replace Central Bank bills currently issued for monetary policy. It is assumed that such debt carries a rate of interest of 5 percent.

Current account. Exports rebounded strongly in 2011 and buoyant growth is expected to continue through 2013 driven by investments into the textile sector. In contrast, import demand will remain subdued as the international support for post-earthquake reconstruction winds down. Over the long term, it is assumed that the real export (real import) elasticity with respect to real GDP is 1.2 (0.8). Workers' remittances are conservatively assumed to increase 4 percent annually (below the expected increase in salaries in the US, which is the main source of remittances). The product-weighted average oil import price is projected to be US$124 per barrel in 2012 and the price is assumed to stay constant over the projection period. Consequently, the current account deficit excluding grants is projected to fall from 30 percent of GDP in 2010 to 20 percent of GDP in 2013, and then to 9½ percent of GDP (the pre-earthquake deficit level) by 2020.

Capital and financial accounts. The capital account surplus is projected to average 4 percent of GDP over medium term. In the early years, the capital account is dominated by public sector inflows, but private sector inflows will dominate the capital account from 2021 onwards. The private sector inflows are expected to be mostly in the form of FDI; by 2032, the stock of private sector external liabilities will be close to 35 percent of GDP.

Text Table 2. Haiti: Macroeconomic Trends and Outlook

	Actual			Medium-term outlook		Long-term outlook	
	Average		Preliminary		Average	Average	
	2000-09	2010	2011	2012	2013-17	2018-31	2032
	(Annual percentage change; unless otherwise indicated)						
National income and prices							
Real GDP	0.7	-5.4	5.6	7.8	5.9	4.5	4.5
Real GDP per capita	-0.9	-4.8	3.9	6.2	4.4	3.4	3.4
Index (1990 = 100)	80	75	78	83	95	133	169
GDP deflator (in gourdes)	13.6	4.7	5.9	7.2	4.0	2.0	2.0
GDP deflator (in US$)	3.9	5.7	6.8	4.7	3.8	2.0	2.0
Consumer prices (period average)	14.8	4.1	7.4	7.7	4.6	3.0	3.0
External sector							
Exports of goods & services (in US$)	5.8	-14.3	26.8	23.9	8.7	6.5	6.5
Imports of goods & services (in US$)	8.4	45.6	-0.3	11.8	1.9	4.4	4.4
Real exchange rate 1/	1.5	4.5	4.6	3.5	2.5	0.0	0.0
Central government							
Total revenue and grants (in gourdes)	22.2	64.6	13.0	14.9	3.4	5.6	5.9
Of which: Revenue	16.9	5.2	23.8	20.7	13.2	7.2	6.6
Primary expenditure (in gourdes)	25.4	22.3	39.4	29.3	2.0	5.2	6.0
Of which: Capital expenditure	34.5	46.8	52.3	38.4	-1.4	4.0	5.4
	(In percent of GDP; unless otherwise indicated)						
National income and prices							
Nominal GDP (in billions of gourdes)	162.0	264.0	297.7	345.7	475.4	935.9	1,461.7
Nominal GDP (in billions of US$)	4.6	6.6	7.4	8.3	11.3	22.3	34.8
GDP per capita (in US$)	489	665	738	820	1,063	1,861	2,706
Gross investment	28.0	25.4	28.0	32.6	26.5	22.9	22.9
Gross national savings	26.3	22.9	24.5	28.1	22.1	18.7	19.6
Gross domestic savings	0.4	-24.7	-13.4	-7.0	-2.1	4.9	9.5
External sector							
Current account deficit	-1.7	-2.6	-3.5	-4.5	-4.5	-4.2	-3.3
Excluding transfers	-7.4	-29.9	-23.1	-22.9	-14.8	-8.0	-5.5
Exports of goods and services	13.7	12.2	13.7	15.0	14.6	14.1	13.9
Imports of goods and services	-41.2	-62.3	-55.1	-54.6	-43.3	-32.0	-27.3
Gross reserves 2/	1.9	5.3	5.3	4.7	4.5	3.3	3.0
Central government							
Total revenue and grants	12.0	29.7	29.8	29.5	24.0	19.8	18.7
Of which: Revenue	9.4	11.9	13.1	13.6	14.6	16.6	16.9
Primary expenditure	13.5	26.8	33.1	36.9	28.5	22.4	20.6
Of which: Capital expenditure	4.8	16.1	21.7	25.9	18.5	12.2	10.4
Overall balance	-2.5	2.4	-3.7	-7.7	-4.9	-3.4	-2.9

Sources: Haitian authorities; and Fund staff estimates and projections.

1/ GDP deflator-based bilateral US dollars-gourdes real exchange rate.
2/ End of period gross liquid reserves in months of the following year's imports of goods and services.

5. **Following the delivery of debt relief, most bilateral development partners and multilateral development banks have shifted to providing assistance on a grants-only basis.** Major new disbursements are those related to the PetroCaribe agreement with Venezuela (see Box 2). Other disbursements are limited to those financed by OPEC, the ongoing airport renovation project financed by Venezuela's Economic and Social Development Bank (BANDES),[5] and the existing IFAD project pipeline.[6]

6. **Various changes to the baseline macroeconomic framework have been introduced since the previous DSA (Text Table 3) to take into account recent domestic developments, the current more troubling international outlook, and the government's revised long-term strategy.**[7] Exports, imports, gross workers' remittances and official transfers have been revised down. Consistently, the long-run real GDP growth rate has been slightly lowered from 5.0 percent to 4.5 percent. In contrast, the fiscal stance is broadly unchanged, but the projected increase in revenues has been brought forward to reflect the authorities' strong commitment to raise revenue collection, and reduce the country's dependency to donor support.

Text Table 3. Haiti: Comparison with Macroeconomic Projections in Previous DSA
(In percent of GDP; unless otherwise noted)

	2017		2030	
	DSA 2010 1/	DSA 2012	DSA 2010 1/	DSA 2012
Total public sector nominal debt	35.4	25.0	32.1	37.4
Domestic	15.0	5.4	20.8	14.4
External	20.4	19.6	11.4	22.9
GDP (in billions of US dollars)	14.6	13.4	35.3	30.6
GDP per capita (in US dollars)	1,295	1,224	2,642	2,434
Real GDP per capita index (1990 = 100)	102	103	161	158
External current account	-4.5	-3.7	-3.6	-3.6
Exports of goods and services	11.5	14.2	17.5	14.0
Imports of goods and services	-37.8	-37.4	-37.5	-28.4
Official transfers	6.6	7.0	3.4	2.5
Gross workers' remittances	13.9	14.9	11.3	10.8
Central government overall balance	-3.8	-4.0	-2.6	-2.8
Government domestic revenue	14.8	15.6	16.9	16.9
Grants	5.3	6.0	2.4	2.1
Primary expenditures	-23.2	-25.1	-20.7	-20.9
Interest payments	-0.8	-0.5	-1.1	-0.9

Sources: Haitian authorities; and staff estimates.

1/EBS/10/139, Supplement 1 (July 8, 2010) as corrected on July 19 and July 20, 2010.

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[5] As the BANDES loan is non-concessional a waiver on the performance criterion on the contracting of external non-concessional debt was granted during the previous ECF arrangement (Country Report No. 10/14).

[6] This pipeline is expected to have become fully disbursed by 2013. It is assumed that new IFAD projects are financed by grants.

[7] Plan Stratégique de développement d'Haïti; Haïti pays émergent en 2030.

Box 2. PetroCaribe

Under the PetroCaribe Agreement, Venezuela finances part of Haiti's fuel import bill. The oil import bill is divided into a portion that is paid for in cash (the 'cash' portion) and a portion that is paid for through an extension of a loan (the 'loan' portion).

- The 'cash' portion represents a suppliers' credit that must be settled within 90 days (that credit is interest free the first 30 days and carries a two percent annual interest rate over the remaining 60 days).
- The 'loan' portion is a function of the oil price; this portion varies from 5 percent of the value of the oil shipment at oil prices up to US$15 per barrel to 50 percent at oil prices of US$100 per barrel or more. Shipping charges have to be prepaid and the 'cash' and 'loan' portions are then determined based on fob prices on a shipment –by–shipment basis. The terms of the 'loan' portion is also a function of the oil price. At oil prices up to US$40 per barrel, the loans have a 17 year maturity and carry a two percent rate of interest. At higher oil prices, the maturity is extended to 25 years and the rate of interest is lowered to one percent. At any oil price, the maturity of the loans includes a two year grace period.

Terms of Venezuelan's Loans under the Petrocaribe Agreement

International oil price (U.S.$/bbl, FOB, VZLA)	Share of value that is lent to Haiti (percent)	Loan maturity (in years)
≧ 15	5	15
≧ 20	10	15
≧ 22	15	15
≧ 24	20	15
≧ 30	25	15
≧ 40	30	23
≧ 50	40	23
≧ 100	50	23

Source. Petrocaribe Agreement between Haiti and Venezuela.

The local currency counterpart of the PetroCaribe credits is deposited in the domestic banking system. The funds are under the control of the central government and all transactions are fully captured in the fiscal accounts. Disbursements are recorded as external financing of the budget with an offsetting negative domestic bank financing entry. When the central government draws down the funds to finance its capital expenditure budget the (negative) domestic financing line is reduced accordingly. The authorities have committed to only use PetroCaribe resources to finance growth-enhancing investment projects; however, funds have also been used to finance transfers to the loss-making energy company EDH. In 2012-13, projected disbursements from the account are based on the expected rate of implementation of the existing project pipeline and a phasing out of electricity subsidies. From 2014 onwards, no electricity subsidies are envisaged and project disbursements are assumed to remain constant in real terms subject to availability of financing (by 2020 the PetroCaribe account has been fully drawn down). General budgetary resources are used to service the debt to PetroCaribe.

The PetroCaribe agreement allows for the financing of up to 14,000 barrels per day (on an annual basis). As Haiti currently exceeds this level of imports, financing is solely a function of price. With an assumed constant oil price over the medium term (at the projected product-weighted average oil price of US$124 per barrel in 2012), PetroCaribe disbursements remain constant at US$330 million a year. These disbursements will lead to a significant build up of new debt over time. The steady-state level of debt to PetroCaribe will be US$4,620 million from 2036 onwards.

7. **The outlook for the debt built up has also been updated.** Over the 2012-17 period, total disbursements have been revised up from US$1.8 billion to US$2.1 billion to incorporate larger PetroCaribe-related inflows (US$2 billion). Beyond donors' commitment horizon, projections are more speculative. The current DSA maintains the assumption that international assistance over the long run will continue at a level of US$1.3 billion annually. However, in light of the current pressures on aid budgets, the average grant element of this assistance has been lowered from 89 percent to 74 percent by changing the grants/loan mix from 83/17 percent to 60/40 percent. The assumptions on future borrowing are realistic given that the expected improvement in Haiti's economic outlook and the resulting buoyancy of the economy will stretch ODA needs (and opportunities) beyond what pure grant funding can cover, and the projected increases in ODA will not breach the concessionality criteria.

8. **Haiti's debt situation has significantly improved as a result of debt relief operations.**[8] The outlook for Haiti's debt, however, has not improved as prospects now are for a more rapid build-up of debt in the context of a weaker capacity to carry such debt. Over the long run, the PV of debt to export ratio will consistently exceed 100 percent (peaking at 129 percent in 2024) and all six standard stress tests lead to a breach of the PV of debt to export sustainability threshold. In the most extreme stress test (the combination shock), the PV of debt to export ratio peaks at 195 percent in 2019. Among the four standard shocks that constitute the combination shock, the export shock is the more serious. In contrast, the PV of debt to GDP and PV of debt to government revenue sustainability thresholds are not breached not even in the most extreme stress test. The debt service sustainability thresholds are also not breached even in the most extreme stress test.

III. Public Sector Debt Sustainability Analysis

9. **In the baseline scenario, the public sector PV debt burden continue to increase over the projection period reaching 32 percent of GDP or 189 percent of revenue by 2032.** The external debt to GDP ratio falls from 2024 onwards reflecting increasing repayments to PetroCaribe. In contrast, domestic debt increases gradually over the projection period from less than 1 percent of GDP in 2011 to 16 percent of GDP by 2032.

IV. Debt Management

10. **The Public Debt Directorate—located in the Ministry of Finance's Directorate-General for the Budget—is the focal point for public debt management.** The January 2010 earthquake seriously disrupted the functioning of the debt management office: the building was destroyed, some data were lost and computer systems were impaired. Staff has now been relocated to new prefabricated offices. While computer systems have been partially restored there are ongoing problems with network connectivity.

[8] The extended debt relief was anticipated and the current baseline DSA is broadly similar to the debt relief scenario included in the previous DSA report.

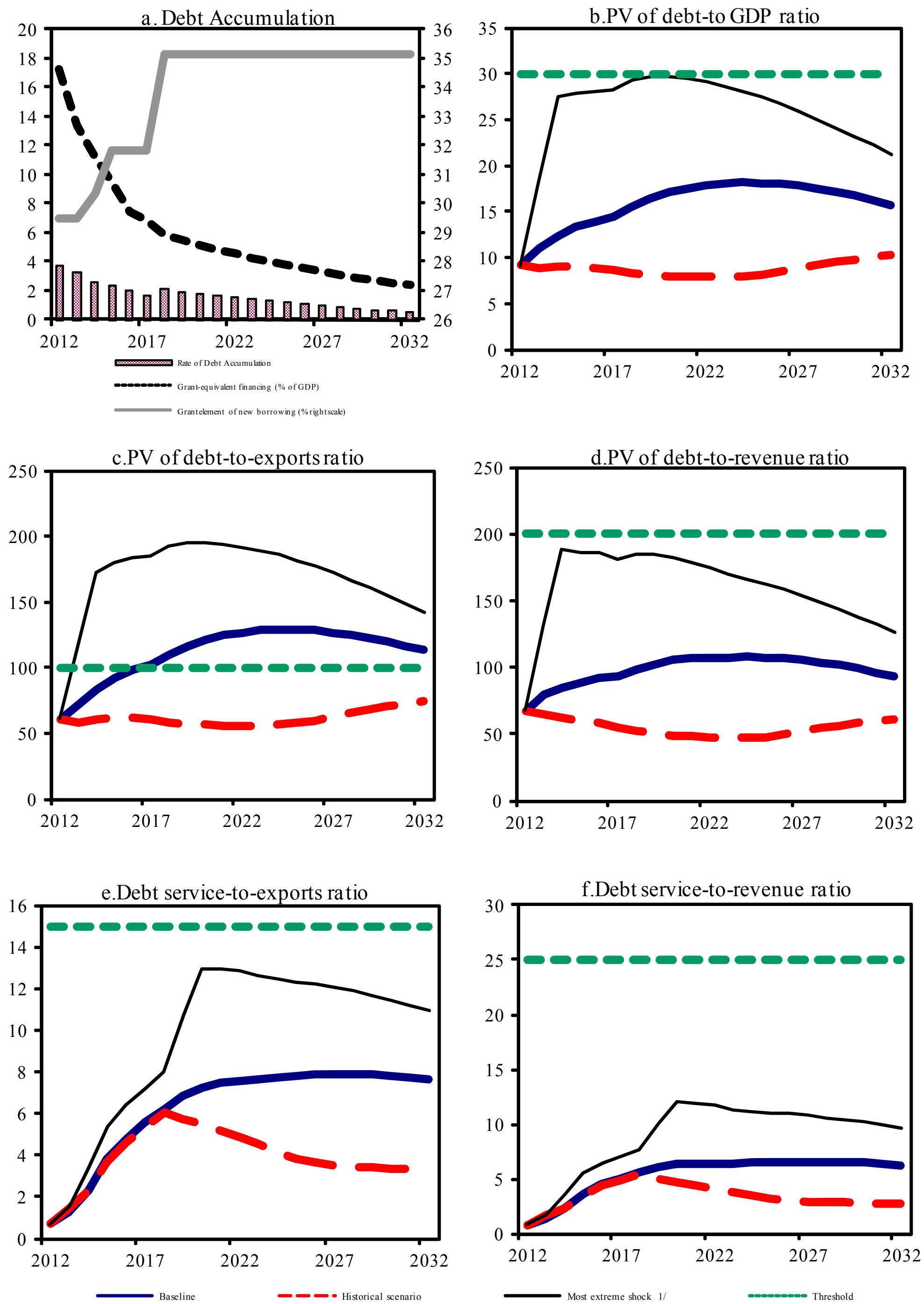
11. **Steady progress is being made to enhance the Public Debt Directorate's operational capacity.** The Directorate uses the electronic UNCTAD's Debt Management and Financial Analysis System (DMFAS) debt recording system and its capacity to produce debt sustainability analyses has been enhanced through the delivery of technical assistance from the Center for Latin American Monetary Studies (CEMLA). Work is ongoing to establish fully operational middle and back office functions within the Directorate. The legal framework for borrowing is not clearly defined, but the government is currently receiving technical assistance from CEMLA as well as the Caribbean Regional Technical Assistance Centre (CARTAC) to set up such a framework. A public debt law establishing a sound legal and institutional framework for public debt management is expected soon to be submitted to parliament (a structural benchmark for end-March in the ECF-supported program).

12. **The Public Debt Directorate and the External Debt Unit in the Central Bank's International Affairs Directorate collaborate closely.** The two organizational units exchange information frequently and jointly prepare debt service projections. The Central Bank is currently receiving technical assistance from UNCTAD to improve compilation of statistics on external private commercial debt.

V. Conclusion

13. **As a result of debt relief Haiti's external debt burden has been significantly reduced since 2009.** However, the outlook is for a significant build up of new external debt. The narrow export base remains the Achilles' heel of Haiti's debt sustainability: the PV of debt to export ratio exceeds the 100 percent sustainability threshold from 2017 onwards. Thus, Haiti's debt situation still remains vulnerable, and, consequently, the staffs continue to assess Haiti's risk of debt distress as being high.

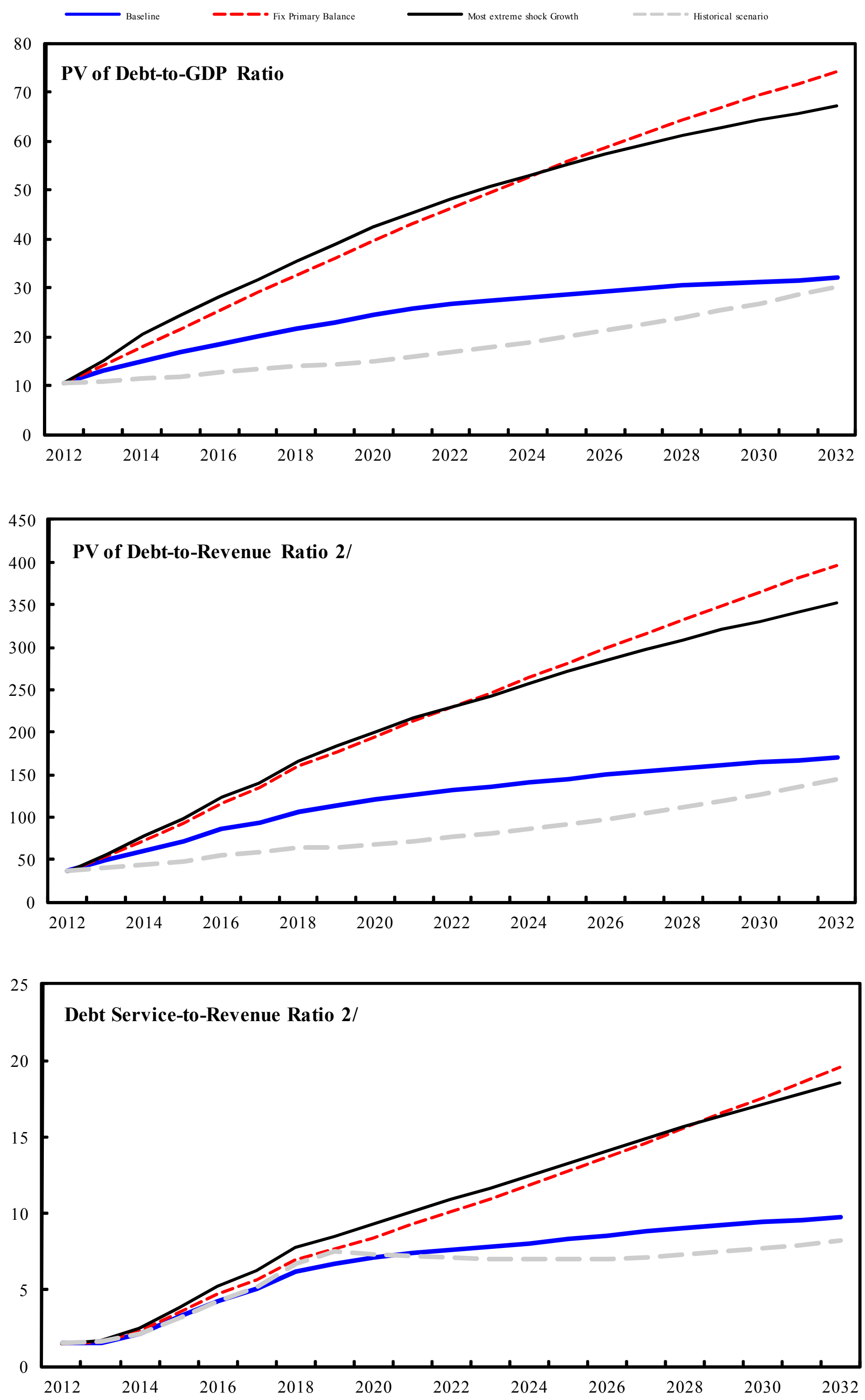
Figure 1. Haiti: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 2. Haiti: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Table 1. Haiti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	19.5	13.2	9.7			14.0	16.9	19.2	21.4	23.4	25.0		33.5	37.7	
o/w foreign-currency denominated	19.5	13.1	9.0			12.5	15.0	16.7	17.9	18.9	19.6		24.9	21.5	
Change in public sector debt	-10.1	-6.3	-3.4			4.3	2.9	2.3	2.1	2.0	1.6		1.1	0.2	
Identified debt-creating flows	3.7	-3.5	2.5			6.6	4.2	3.2	3.0	2.5	2.2		1.5	0.6	
Primary deficit	4.0	-2.9	3.3	1.3	2.1	7.3	5.4	4.5	4.4	3.9	3.5	4.8	2.8	1.9	2.6
Revenue and grants	17.9	29.7	29.8			29.5	26.1	24.7	23.5	21.6	21.5		20.2	18.7	
of which: grants	6.7	17.8	16.8			15.9	12.2	10.2	8.5	6.5	6.0		3.5	1.9	
Primary (noninterest) expenditure	21.9	26.8	33.1			36.9	31.5	29.2	27.9	25.5	25.1		23.0	20.6	
Automatic debt dynamics	-0.3	-0.6	-0.8			-0.7	-1.3	-1.3	-1.4	-1.4	-1.3		-1.3	-1.3	
Contribution from interest rate/growth differential	-0.9	1.0	-0.5			-0.4	-0.7	-0.8	-1.0	-1.0	-1.1		-1.3	-1.3	
of which: contribution from average real interest rate	-0.1	-0.1	0.2			0.3	0.2	0.1	0.1	0.1	0.0		0.1	0.3	
of which: contribution from real GDP growth	-0.8	1.1	-0.7			-0.7	-0.9	-1.0	-1.1	-1.1	-1.1		-1.4	-1.6	
Contribution from real exchange rate depreciation	0.6	-1.6	-0.3			-0.3	-0.6	-0.4	-0.4	-0.3	-0.2		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-13.8	-2.8	-5.9			-2.4	-1.2	-0.9	-0.9	-0.5	-0.6		-0.4	-0.4	
Other Sustainability Indicators															
PV of public sector debt	...	...	7.3			10.6	13.0	14.9	16.7	18.5	19.9		26.5	31.9	
o/w foreign-currency denominated	...	...	6.6			9.2	11.1	12.3	13.3	14.0	14.5		17.9	15.7	
o/w external	...	...	6.6			9.2	11.1	12.3	13.3	14.0	14.5		17.9	15.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.0	-2.3	3.8			8.4	7.1	6.7	7.5	8.0	8.8		11.9	18.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	24.4			36.0	49.7	60.3	71.2	85.5	92.4		131.3	170.4	
PV of public sector debt-to-revenue ratio (in percent)	…	…	55.7			78.2	93.4	102.4	111.4	122.0	128.0		159.2	189.3	
o/w external 3/	…	…	50.3			67.5	79.8	84.7	88.5	92.2	93.0		107.4	93.4	
Debt service-to-revenue and grants ratio (in percent) 4/	5.5	2.1	1.5			1.5	1.6	2.2	3.2	4.3	5.1		7.6	9.7	
Debt service-to-revenue ratio (in percent) 4/	8.7	5.2	3.5			3.2	3.0	3.7	5.1	6.1	7.0		9.3	10.8	
Primary deficit that stabilizes the debt-to-GDP ratio	14.1	3.4	6.7			3.1	2.5	2.1	2.3	1.9	1.9		1.7	1.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	2.9	-5.4	5.6	0.8	3.3	7.8	6.9	6.2	6.0	5.5	5.0	6.2	4.5	4.5	4.5
Average nominal interest rate on forex debt (in percent)	0.7	0.6	0.5	1.1	0.7	0.8	0.9	1.0	1.1	1.1	1.1	1.0	1.0	1.0	1.0
Average real interest rate on domestic debt (in percent)	...	...	342.8	342.8	#DIV/0!	44.3	10.5	7.5	4.8	4.1	4.1	12.5	4.2	3.3	4.0
Real exchange rate depreciation (in percent, + indicates depreciation)	2.2	-7.7	-2.1	-3.9	12.0	-3.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.4	4.7	6.8	12.7	7.6	7.7	5.6	4.0	4.0	3.5	3.0	4.6	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	0.3	0.2	0.3	0.2	0.2	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	29.5	29.5	30.3	31.8	31.8	31.8	30.8	35.2	35.2	...

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Haiti: Sensitivity Analysis for Key Indicators of Public Debt 2012-2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	11	13	15	17	18	20	27	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	11	11	12	13	13	17	30
A2. Primary balance is unchanged from 2012	11	14	18	22	25	29	46	74
A3. Permanently lower GDP growth 1/	11	13	15	17	20	22	32	50
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	11	15	21	24	28	32	48	67
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	11	12	13	15	17	18	25	31
B3. Combination of B1-B2 using one half standard deviation shocks	11	12	13	17	21	24	39	57
B4. One-time 30 percent real depreciation in 2013	11	16	17	19	20	21	26	31
B5. 10 percent of GDP increase in other debt-creating flows in 2013	11	20	21	22	24	25	31	34
PV of Debt-to-Revenue Ratio 2/								
Baseline	36	50	60	71	85	92	131	170
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	36	40	44	47	55	58	76	144
A2. Primary balance is unchanged from 2012	36	54	73	92	117	134	229	396
A3. Permanently lower GDP growth 1/	36	50	62	74	90	99	157	265
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	36	55	77	97	123	139	230	352
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	36	45	53	64	78	85	125	166
B3. Combination of B1-B2 using one half standard deviation shocks	36	43	50	68	91	106	190	302
B4. One-time 30 percent real depreciation in 2013	36	62	70	79	92	98	128	164
B5. 10 percent of GDP increase in other debt-creating flows in 2013	36	75	85	96	111	117	152	184
Debt Service-to-Revenue Ratio 2/								
Baseline	1	2	2	3	4	5	8	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1	2	2	3	4	5	7	8
A2. Primary balance is unchanged from 2012	1	2	2	4	5	6	10	20
A3. Permanently lower GDP growth 1/	1	2	2	3	4	5	8	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	1	2	2	4	5	6	11	19
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	1	2	2	3	4	5	7	9
B3. Combination of B1-B2 using one half standard deviation shocks	1	2	2	3	4	6	9	16
B4. One-time 30 percent real depreciation in 2013	1	2	3	4	6	7	10	13
B5. 10 percent of GDP increase in other debt-creating flows in 2013	1	2	3	4	5	5	9	11

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 3. Haiti: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**19.5**	**13.1**	**9.0**			**12.5**	**15.0**	**16.7**	**17.9**	**18.9**	**19.6**		**24.9**	**21.5**	
o/w public and publicly guaranteed (PPG)	19.5	13.1	9.0			12.5	15.0	16.7	17.9	18.9	19.6		24.9	21.5	
Change in external debt	-10.1	-6.4	-4.0			3.5	2.5	1.6	1.3	0.9	0.7		0.5	-0.7	
Identified net debt-creating flows	2.9	0.3	-0.4			2.7	3.5	2.1	1.8	1.5	1.2		0.9	-0.6	
Non-interest current account deficit	**3.3**	**2.4**	**3.5**	**1.7**	**1.6**	**4.4**	**5.4**	**4.6**	**4.2**	**3.8**	**3.6**		**4.3**	**3.1**	3.9
Deficit in balance of goods and services	28.6	50.2	41.4			39.6	35.5	31.4	28.3	25.0	23.2		19.5	13.4	
Exports	14.2	12.2	13.7			15.0	15.5	14.8	14.4	14.2	14.2		14.1	13.9	
Imports	42.8	62.3	55.1			54.6	50.9	46.2	42.7	39.3	37.4		33.6	27.3	
Net current transfers (negative = inflow)	-25.0	-47.3	-37.3	-30.3	7.2	-34.7	-29.6	-26.5	-23.8	-21.0	-19.5		-15.3	-11.1	-14.0
o/w official	-6.0	-27.3	-19.6			-18.4	-14.4	-12.1	-10.2	-8.1	-7.0		-4.2	-2.2	
Other current account flows (negative = net inflow)	-0.4	-0.4	-0.6			-0.5	-0.4	-0.3	-0.3	-0.3	-0.2		0.1	0.8	
Net FDI (negative = inflow)	**-0.6**	**-2.3**	**-2.4**	**-1.2**	**1.1**	**-1.2**	**-1.3**	**-1.8**	**-1.7**	**-1.6**	**-1.6**		**-2.6**	**-3.0**	-2.8
Endogenous debt dynamics 2/	**0.2**	**0.1**	**-1.4**			**-0.6**	**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-0.7**		**-0.8**	**-0.7**	
Contribution from nominal interest rate	0.2	0.1	0.1			0.1	0.1	0.1	0.2	0.2	0.2		0.2	0.2	
Contribution from real GDP growth	-0.9	1.1	-0.6			-0.6	-0.8	-0.8	-0.9	-0.9	-0.9		-1.0	-0.9	
Contribution from price and exchange rate changes	0.8	-1.1	-0.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-13.0**	**-6.7**	**-3.6**			**0.8**	**-1.0**	**-0.4**	**-0.5**	**-0.5**	**-0.5**		**-0.4**	**-0.1**	
o/w exceptional financing	-2.4	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	6.6			9.2	11.1	12.3	13.3	14.0	14.5		17.9	15.7	
In percent of exports	...	...	48.1			61.1	71.5	83.2	92.1	98.1	102.0		126.9	113.1	
PV of PPG external debt	**...**	**...**	**6.6**			**9.2**	**11.1**	**12.3**	**13.3**	**14.0**	**14.5**		**17.9**	**15.7**	
In percent of exports	**...**	**...**	**48.1**			**61.1**	**71.5**	**83.2**	**92.1**	**98.1**	**102.0**		**126.9**	**113.1**	
In percent of government revenues	**...**	**...**	**50.3**			**67.5**	**79.8**	**84.7**	**88.5**	**92.2**	**93.0**		**107.4**	**93.4**	
Debt service-to-exports ratio (in percent)	**3.9**	**1.6**	**0.6**			**0.7**	**1.3**	**2.3**	**3.8**	**4.8**	**5.5**		**7.6**	**7.6**	
PPG debt service-to-exports ratio (in percent)	**3.9**	**1.6**	**0.6**			**0.7**	**1.3**	**2.3**	**3.8**	**4.8**	**5.5**		**7.6**	**7.6**	
PPG debt service-to-revenue ratio (in percent)	**4.9**	**1.7**	**0.6**			**0.8**	**1.4**	**2.3**	**3.7**	**4.5**	**5.1**		**6.4**	**6.3**	
Total gross financing need (Millions of U.S. dollars)	212.6	23.3	82.8			277.2	404.0	318.7	344.1	352.8	360.8		508.7	403.9	
Non-interest current account deficit that stabilizes debt ratio	13.4	8.9	7.5			0.9	2.9	3.0	2.9	2.8	2.9		3.8	3.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.9	-5.4	5.6	0.8	3.3	7.8	6.9	6.2	6.0	5.5	5.0	6.2	4.5	4.5	4.5
GDP deflator in US dollar terms (change in percent)	-2.8	5.7	6.8	7.3	12.0	4.7	4.3	4.0	4.0	3.5	3.0	3.9	2.0	2.0	2.0
Effective interest rate (percent) 5/	0.7	0.6	0.5	1.1	0.7	0.8	0.9	1.0	1.1	1.1	1.1	1.0	1.0	1.0	1.0
Growth of exports of G&S (US dollar terms, in percent)	11.6	-14.3	26.8	9.1	11.1	23.9	15.0	5.8	7.0	7.8	7.9	11.2	6.5	6.5	6.5
Growth of imports of G&S (US dollar terms, in percent)	-1.7	45.6	-0.3	12.9	14.5	11.8	4.0	0.2	1.8	0.4	3.0	3.5	4.4	4.4	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	29.5	29.5	30.3	31.8	31.8	31.8	30.8	35.2	35.2	35.2
Government revenues (excluding grants, in percent of GDP)	11.2	11.9	13.1			13.6	13.9	14.6	15.0	15.1	15.6		16.7	16.9	16.7
Aid flows (in Millions of US dollars) 7/	663.2	1393.3	1576.1			1669.1	1479.9	1380.0	1319.0	1160.0	1160.0		1170.0	1170.0	
o/w Grants	438.4	1169.2	1238.7			1329.0	1135.0	1045.0	959.0	800.0	800.0		650.0	650.0	
o/w Concessional loans	224.8	224.0	337.5			340.1	344.9	335.0	360.0	360.0	360.0		520.0	520.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			17.3	13.4	11.2	9.5	7.4	6.8		4.5	2.4	3.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			84.4	82.5	83.1	81.4	78.8	78.8		71.2	71.2	71.2
Memorandum items:															
Nominal GDP (Millions of US dollars)	6552.0	6551.2	7388.4			8335.3	9293.8	10264.8	11315.9	12354.5	13361.4		18383.8	34801.6	
Nominal dollar GDP growth	0.0	0.0	12.8			12.8	11.5	10.4	10.2	9.2	8.2	10.4	6.6	6.6	6.6
PV of PPG external debt (in Millions of US dollars)			478.7			754.6	1028.9	1266.8	1501.6	1723.7	1934.1		3288.9	5479.3	
(PVt-PVt-1)/GDPt-1 (in percent)						3.7	3.3	2.6	2.3	2.0	1.7	2.6	1.5	0.5	1.2
Gross workers' remittances (Millions of US dollars)	1375.6	1473.8	1552.7			1636.8	1702.3	1770.4	1841.2	1914.8	1991.4		2422.9	3586.4	
PV of PPG external debt (in percent of GDP + remittances)	...	...	5.4			7.7	9.4	10.5	11.4	12.1	12.6		15.8	14.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	18.9			26.5	32.8	38.5	43.3	46.9	49.8		65.6	65.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	0.2			0.3	0.6	1.1	1.8	2.3	2.7		3.9	4.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 4. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (Continued)
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	9	11	12	13	14	14	**18**	16
A. Alternative Scenarios								
A2. New public sector loans on less favorable terms in 2012-2032 2	9	12	14	15	17	18	**24**	25
A3. Alternative Scenario :[Costumize, enter title]	9	9	9	8	6	5	**0**	-5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	9	12	15	16	17	17	**21**	19
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	9	13	16	17	17	17	**20**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	9	12	15	16	17	17	**21**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	9	16	21	21	21	22	**23**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	9	18	27	28	28	28	**29**	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	9	16	17	19	20	20	**25**	22
PV of debt-to-exports ratio								
Baseline	61	72	83	92	98	102	**127**	113
A. Alternative Scenarios								
A2. New public sector loans on less favorable terms in 2012-2032 2	61	77	93	107	117	124	**172**	177
A3. Alternative Scenario :[Costumize, enter title]	60	60	61	56	45	34	**0**	-36
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	61	71	83	92	98	102	**127**	113
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	61	95	135	146	152	156	**179**	149
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	61	71	83	92	98	102	**127**	113
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	61	105	140	147	151	153	**162**	123
B5. Combination of B1-B4 using one-half standard deviation shocks	61	117	172	180	183	185	**192**	142
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	61	71	83	92	98	102	**127**	113
PV of debt-to-revenue ratio								
Baseline	68	80	85	88	92	93	**107**	93
A. Alternative Scenarios								
A2. New public sector loans on less favorable terms in 2012-2032 2	68	86	95	103	110	113	**146**	146
A3. Alternative Scenario :[Costumize, enter title]	67	67	62	54	43	31	**0**	-30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	68	88	101	106	110	111	**128**	111
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	68	91	109	111	113	112	**120**	97
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	68	87	101	106	110	111	**128**	112
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	68	118	143	141	142	139	**137**	102
B5. Combination of B1-B4 using one-half standard deviation shocks	68	131	188	186	185	181	**175**	126
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	68	112	119	124	129	131	**151**	131

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 4. Haiti: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (Concluded)
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
Debt service-to-exports ratio								
Baseline	1	1	2	4	5	6	**8**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	1	1	2	4	5	5	**5**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	1	1	3	4	6	7	**10**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	1	1	2	4	5	5	**8**	8
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	1	2	3	5	6	7	**11**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	1	1	2	4	5	5	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	1	1	3	5	5	6	**11**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	3	5	6	7	**13**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	1	1	2	4	5	5	**8**	8
Debt service-to-revenue ratio								
Baseline	1	1	2	4	4	5	**6**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	1	2	2	4	4	5	**4**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	1	2	3	4	5	6	**8**	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	1	2	3	4	5	6	**8**	8
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	1	2	3	4	5	5	**8**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	1	2	3	4	5	6	**8**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	1	2	3	4	5	6	**9**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	4	6	6	7	**12**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	1	2	3	5	6	7	**9**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	**33**	33

Sources: Country authorities; and staff estimates and projections.
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Statement by the IMF Staff Representative on Haiti
Executive Board Meeting 12/27
March 19, 2012

This statement provides additional information on developments since the issuance of the staff report for the second and third reviews under the Extended Credit Facility arrangement for Haiti (EBS/12/22; February 24, 2012). This additional information does not change the thrust of the staff report.

1. ***Recent political development***. Haiti Prime Minister Garry Conille, who was appointed on October 5, 2011 after five months of protracted negotiations between the president and parliament, tendered his resignation on Friday, February 24. Prime Minister Conille is remaining in office until a successor has been approved by parliament. President Martelly has proposed the appointment of Mr. Lamothe, the current Minister of Foreign Affairs and co-chairman of the Advisory Board on Economic Growth and Investment, to the position of Prime Minister. However, the completion of this process by parliament could be lengthy.

2. ***Recent economic developments.*** Preliminary information suggests that economic activity is broadly as anticipated under the program. Twelve-month inflation has continued to ease, at 7. 7 percent in January. Preliminary fiscal data through February indicate that fiscal performance is in line with the program targets. Official reserves remain relatively high at US$2.0 billion (5.2 months of imports of goods and services) at end-February 2012.

3. ***Structural reform agenda.*** The caretaker government is implementing the reform agenda, sending an unequivocal signal about the authorities' commitment to institutional continuity and ability to implement the ECF-supported program. In particular, the authorities have: (i) submitted the FY 2012 budget to parliament; (ii) finalized the selection of an international firm to conduct an external audit of the Central Bank; and (iii) signed the contract with an international firm to oversee and improve the management of the electricity company (EDH).

Press Release No. 12/96
FOR IMMEDIATE RELEASE
March 21, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second and Third Reviews Under Haiti's ECF Arrangement and Approves US$15.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed the second and third reviews of Haiti's performance under the Extended Credit Facility (ECF) arrangement on March 19, 2012. Completion of the reviews will enable an immediate disbursement of SDR 9.83 million (about US$15.1 million), bringing total disbursements under the program to date to SDR 26.21 million (about US$40.3 million).

Haiti's ECF arrangement was approved on July 21, 2010 (see Press Release No. 10/299) together with the full relief on the country's outstanding debt to the Fund of about SDR 178 million (equivalent to US$274 million). The debt relief and IMF financing are part of a broad international strategy to support Haiti's longer-term economic reconstruction plans, following the devastating earthquake of January 12, 2010.

Following the Executive Board discussion on Haiti, Mr. Naoyuki Shinohara, Deputy Managing director and Acting Chair, issued the following statement:

"Haiti's economy continues to recover. The sustained efforts of the authorities and the international community have helped rekindle growth, keep inflation at single digits levels, and strengthen the fiscal and external accounts. However, the reconstruction and the pace of implementation of structural reforms have generally been slower than anticipated, reflecting predominantly the protracted electoral process and the country's limited administrative and absorptive capacity.

"Significant challenges remain. Most Haitians live below the poverty line, and, two years after the earthquake, more than half a million people are still living in temporary shelters. Health and sanitary conditions remain poor. While favorable, the economic outlook remains subject to risks, including a weaker global economic environment and a deterioration in the domestic political and security situations. Pursuit of appropriate macroeconomic policies, acceleration of the reconstruction, and a steady implementation of structural reforms, as well as continuous engagement from the international community, will help support the recovery and lay the foundations for long-term sustainable development.

“The government’s macroeconomic policy mix for 2012 remains appropriate. Higher government revenue and continued non-priority spending restraint will help create additional fiscal space to ramp up spending on poverty-related and other priority projects. Monetary policy remains geared toward containing inflation in single digits. Increased flexibility in the exchange rate will help manage capital inflows, absorb external shocks, and improve monetary policy effectiveness.

“The structural reform agenda focuses on strengthening revenue administration; enhancing institutional capacity for better public investment implementation and monitoring; improving public financial management and economic governance; and strengthening the financial sector.”

Statement by Paulo Nogueira Batista, Executive Director for Haiti and Ms. Ketleen Florestal, Senior Advisor to Executive Director
March 19, 2012

1. On behalf of our Haitian Authorities, our chair would like to thank management, the Western Hemisphere Department, and especially the mission chief and his present and past teams for a very constructive dialogue throughout the year.

Performance under the ECF and the recent evolution of Haiti

2. As attested by staff in the report, Haiti's performance at the different test dates under the ECF program has been satisfactory. All performance criteria have been met. Delays in implementing some of the reforms were due to circumstances beyond the authorities' control. Moreover, at least three of the structural measures not completed at the specific test dates set for the present reviews have now been achieved, i.e. those related to the preparation and publication of monthly cash plans and of investment expenditures as well as the launching of the bids for the selection and hiring of the international consulting agency that will assist the units that implement projects in the government. The authorities have also made good progress in finalizing the contract with an international firm for the external audit of the central bank.

3. The socio-political situation has evolved significantly since the Board's discussion of the first review of the ECF. Haiti has a legitimately and democratically elected government in place. The security situation has significantly improved. According to the authorities, camp occupancy which was estimated at close to 1.3 million after the earthquake has been reduced by more than two thirds and the cholera epidemic has been halted. Additionally, half of the rubbles from the earthquake is now removed.

4. Despite several external shocks, including adverse weather conditions and uncertainties linked to the election year, the economy has grown by 5.6 percent in 2011, driven to a large extent by the export sector (mostly manufacturing) but also by construction and services. GDP is tabled to grow even faster in 2012 because better harvest conditions are anticipated, reconstruction activities are expected to accelerate and credit to the private sector is projected to continue its upward trajectory. The 7.8 percent projected GDP growth rate is also based on a strong implementation of the public investment program.

5. After a temporary surge, due to the international commodity price hikes, inflation is back to single digits. Fiscal revenues have increased by more than 20 percent to 13.1 percent of GDP at end-September 2011. The external position has strengthened as attested by the maintenance of a comfortable reserve cushion (over five months of import coverage) and a stable exchange rate. The banking sector is sound with low NPLs and reasonable profitability. Respectable growth of the banking sector has been registered using different metrics, including assets, loan and deposit portfolios.

6. Investor confidence increased and is exemplified by the surge in FDI. The domestic private sector which was hard hit by the earthquake is also timidly reconstituting its capital.

After the earthquake, the central bank introduced credit stimulating policies, including the implementation of a credit guarantee scheme and encouragements through accommodative required reserve policy for mortgage loans. Investments are on the rise, particularly in the construction sector.

Near, medium and long term outlook

7. Overall the near term outlook is positive and the Haitian authorities are determined to continue pushing forward with structural reform programs and to achieve a strong performance under the ECF. They recognize, however, that final outcomes are dependent on several factors including (i) the global international environment (more particularly the evolution of commodity prices and, to some extent, remittances); (ii) the timely and continued delivery of donor commitments; as well as (iii) the strengthening of the working relationship between the Government and Parliament.

8. President Martelly has identified five priority areas for his term in office which include Energy and the four "Es" announced during his campaign: Education (universal and free), Employment, Environment, and Rule of law ("État de Droit"). Needless to say, these priorities are at the center of Haiti's growth and poverty reduction objectives. The achievement of these objectives depends primarily on jumpstarting private sector initiatives in an irreversible manner. In this regard the link between education and employment cannot be overstressed. The Haitian government is determined not only to achieve general and free access to basic education but also to enhance skills and professional training with a view of matching them with labor market needs. It intends to make tangible progress on these five fronts over the next few years.

9. For the medium and long term, as indicated in the MEFP, the authorities' actions are guided by the strategy for reconstruction and development outlined in Haiti's National Recovery and Development Action Plan (PARDH) which serves as an update of the PRSP post-earthquake. The strategy is to achieve sustainable, high and inclusive growth by concentrating efforts on four rebuilding pillars:

(i) Territorial rebuilding which includes planning and managing new development centers and stimulating local development through integrated actions to rehabilitate and in certain cases develop basic infrastructures;
(ii) Economic rebuilding which will be based on Haiti's comparative advantages and centered on increasing its production efficiency and competitiveness in agriculture, tourism and manufacturing, with due consideration given to modernizing the construction sector and to ensuring that hurricane and earthquake resistance standards are set and enforced;
(iii) Social rebuilding with an emphasis on education and health, as well as social protection;
(iv) Institutional rebuilding, involving the strengthening and modernizing of the State as well as establishing a culture of accountability and transparency to deter corruption.

Fiscal Sustainability

10. Our authorities are determined, with the support of donors, to strengthen the tax administrations, fight tax evasion and contraband as well as streamline exemptions in order to achieve fiscal revenues which are more in line with the economy's potential and the experience of comparable countries. In this regard, domestic taxes are expected to be the main contributor to the projected significant increase in tax collection. Important savings are also expected from the authorities' efforts to limit NGO's undue benefits from the exemption systems as the taxes forgone to the sector are very significant. Additional taxation is also envisaged and already a draft law to increase excise taxes on tobacco and alcohol has been included in the draft budget legislation presented to Parliament.

11. On the expenditure side, several measures are being taken to enhance control and transparency as well as improve the efficiency of expenditures. Subsidies to the electricity sector are being decisively phased out. In this regard, a two-pronged approach has been adopted: (i) increasing transparency and accountability as well improving management practices in the sector particularly by the signing of a two year management contract with an international firm; and (ii) investing in infrastructure rehabilitation and access expansion. This year, in line with the objective of decreasing the burden of the electricity sector on the fiscal budget, the government is replacing open-ended subsidies to the state electricity company (Electricité d'Haiti – EDH) by gradual payment of the government's overdue electric bills and also avoiding the emergence of new arrears by public entities to EDH.

Exchange rate, financial policies and promotion of private sector initiatives,

12. Marketing "Haiti is ready for business" has been the motto behind several of the Government's initiative, including enhancing the efficiency of its diplomatic service by nominating officials with a business background and/or international experience for key diplomatic positions. Examples of this policy are Ambassadors, including to the US and Canada, as well as Consuls, approved by the Senate this week.

13. Additionally, several initiatives are being undertaken to improve the business climate, including this past November the holding of the second High-level Investment Forum with

support from the IDB and the Clinton Foundation. Another initiative worth mentioning is the this week's three day stocktaking exercise on the state of doing business in Haiti with participation of several stakeholders, including the banking system, trade associations, think thanks, and policymakers.

14. Enhancing services and opportunities for small and medium enterprises (SMEs) are also among the priorities of the Authorities who believe that they are a useful vehicle to enhance the income generation capacity of the poor. Hence, the Central Bank in collaboration with other stakeholders is putting together legislation to regulate non mutual microfinance institutions and to facilitate the development of mobile banking.

15. The exchange rate plays an important role in the economy given the high level of openness and the relative importance of public and private transfers. The Central Bank is determined to continue improving the functioning of the foreign exchange market. However the timing and modality for moving to an unconstrained auction system for currency trading will need to be carefully fine tuned, given the potential for oligopolistic behavior in a very small market.

Donor Assistance

16. In less than two weeks we will come to the second anniversary of the generous pledges made in New York in 2010 after the earthquake. Our Haitian Authorities would like to seize the opportunity to engage with the international community in a constructive assessment of the support provided to Haiti thus far. The idea would not only be to put in place a transparent accounting of the funds disbursed but also to discuss how to cooperate more efficiently. There is a need to increase the predictability of disbursements and the alignment of donors' programs and projects with government priorities. Also, disbursement and implementation procedures should be harmonized. Finally, it is important to avoid creating parallel structures which contribute to weakening state institutions.

17. One key instrument of support is budget contributions. The authorities are indeed determined to increase fiscal revenues with a view to decreasing Haiti's reliance on donor assistance in the medium term. However, in the short term, budget support is essential to support the strengthening of public financial management as well as to promote country ownership of development programs and projects. The Ministry of Finance has successfully engaged donors to participate in the budget support group. In this forum, the Government agrees with donors on a matrix of measures and objectives which constitutes the basis on which budget support will be granted and disbursed.

18. The last budget support group meetings were held in mid-December and mid-February. Budget support group members and the authorities agreed on concentrating on two axes: a) economic governance and b) policy. The former entails the stability of the macro framework and, more specifically, the modernization of public financial management, building on the World Bank's Public Expenditure and Financial Accountability (PEFA) assessment. Another aspect is the improvement of the business environment through enhanced supervision and management of the insurance sector and modifications in the legal framework for doing business. The policies which are included in the matrix span from those

to fight poverty to those encompassing the following sectors: energy, transport and communication infrastructures, agriculture, education, potable water and sanitation.

19. We call on our Board colleagues and Fund management to encourage development partners to avoid a wait and see attitude ahead of the approval of the Prime Minister. In the present situation, it is best to stay engaged. The care-taker government is functioning. Parliament is taking relevant decisions. We have mentioned already this week's approval by the Senate of key diplomatic nominations. Moreover, on March 13, the Senate also approved the long-awaited banking law.

20. The government continues to work on delivering its promises to create jobs and reduce poverty. To reach these goals it is determined to honor its engagements toward the international community, including the IMF. The international community also needs to continue to do its part.